

# GOVERNMENT & POLITICS

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DEMOCRACY AND SOCIALISM

*by Arthur Rosenberg*

THE NEW DEAL

*by the Editors of the London Economist*

THE BRITISH COMMON PEOPLE 1746-1938

*by G. D. H. Cole and Raymond Postgate*

A PHILOSOPHY FOR A MODERN MAN

*by H. Levy*

THE COMING VICTORY OF DEMOCRACY

THIS PEACE

*by Thomas Mann*

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JOBS FOR ALL



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# JOBS FOR ALL

THROUGH  
INDUSTRIAL EXPANSION.

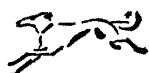
*by*

*Mordecai Ezekiel*

WITH ILLUSTRATIONS BY GUY ROWE

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MANUFACTURED IN THE UNITED STATES OF AMERICA

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*To my best collaborator  
and keenest critic*

LUCILLE FINSTERWALD EZEKIEL



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## FOREWORD TO SECOND EDITION



Political, economic, and legal events develop under hot-house pressure today. The six months since this book was written have seen great gains for the dictators in Czechoslovakia and Spain, a marked hardening of resistance by the so-called democracies, and a downward slide of industry at home under the chilling influence of constant crises abroad. The reactionary swing of our 1938 elections has been reflected in harsh limitations on the use of federal relief funds, and in a wave of anti-alien and anti-free-speech proposals even worse than the notorious alien and sedition laws of our early history. With the economic pressures of unemployment and relief undiminished, with wedges being driven between farmers and city labor, and with propertied classes tending to crystallize into an anti-labor and anti-progressive bloc, our social structure is tending to cleave into two great opposing camps. Measures to prevent such a cleavage are therefore of even greater public need than before.

The economic problem thus continues the great central dilemma of our time. Facing that dilemma, I as an author am appreciative of the fact that this book has been generally received in the spirit in which it was offered—as an honest, even if foolhardy, attempt to suggest a way out. As contrasted to the catcalls and jeers with which “\$2500 a Year” was received three years ago, the serious attention paid to

"Jobs for All" indicates that the country is at last awakening to the fundamental nature of the problem of chronic unemployment.

The intervening six months have moved the ideas advanced here much nearer to things that may yet be.

On the public opinion front, organizations representing weighty factors in American economic life have swung more and more toward backing action along the lines suggested here. The American Farm Bureau Federation, in formal resolutions at its annual convention last winter, resolved:

"We respectfully urge the President of the United States to call together representatives of industry, labor, and agriculture selected from a list of those recommended by the duly selected leaders of the three major economic groups, to discuss a program of action designed to promote economic balance between these groups on a basis that will permit full utilization of our great productive resources."

The American Federation of Labor has repeatedly stressed the same idea in its *Monthly Survey of Business*, saying in its February issue:

"It is for the Federal Government to take the initiative in bringing representatives of labor, as well as business, farmers and others into its councils to develop practical measures for immediate industrial expansion."

and again in June:

"Sound recovery in an age of mass production can only come through planning to advance all economic groups and timing undertakings so as to provide consuming power to buy output. Such planning, as advocated in our last issue, has two important features: The National

Planning Board is (1) representative, and (2) continuous. Representatives of business men, labor, consumers, farmers, industrial engineers, should have a voice in formation of policies."

Leaders of the C.I.O., including Lewis and Hillman, have made repeated proposals along the same line during the winter and spring. At the National Farm Institute at Des Moines last spring representatives of labor, farmers, and government all joined in urging that a national meeting representing all economic groups be called together to develop definite programs for increased production, employment, and national income.

While none of the groups mentioned are ready to specify the precise plan that should be used in attacking the problem, all of them are concerned that definite efforts be made to find an answer and to apply it. It is quite apparent that we are not yet ready to move on any proposal so specific as that set forth in the pages that follow. Much more building up of facts and experience in program-making on a single-industry basis may be necessary before we are ready to tackle any such industry-wide program as that suggested. In the meantime, we will continue to develop and apply more of the rear-guard measures we have developed to date. But eventually, I firmly believe, we will come to realize we cannot win the war against poverty by defensive actions alone. Some day we will take positive aggressive action. The expanding interest indicates that that day, though yet over the horizon, is drawing increasingly near.

On the legal front two notable Supreme Court decisions have come down, on the new A.A.A. Act, with its provisions for marketing quotas, and on A.A.A. marketing agreements. These decisions clear away all doubt as to



whether action such as that proposed in this book would be constitutional. The words of Justice Roberts, speaking for the Court majority, clear that up once and for all:

“Any rule, such as that embodied in the Act, which is intended to foster, protect and conserve that (interstate) commerce, or to prevent the flow of commerce from working harm to the people of the nation, is within the competence of Congress. Within these limits the exercise of the power, the grant being unlimited in its terms, may lawfully extend to the absolute prohibition of such commerce, and *a fortiori* to limitation of the amount of a given commodity which may be transported in such commerce. The motive of Congress in exerting the power is irrelevant to the validity of the legislation.

“The provisions of the Act under review constitute a regulation of interstate and foreign commerce within the competency of Congress under the power delegated to it by the Constitution.”

The discussions of industrial expansion during the past six months have helped me clarify in my own mind one point that may seem obscure in the pages that follow. That is the relation between fiscal policy on the one hand and planned expansion of production on the other. Chapter XXX may seem to suggest that I regard industrial expansion as a complete alternative to public spending or investment. On the contrary, I believe that both are needed. During the early years of industrial expansion it would be desirable to continue a large program of public investment to provide a back-log of insured demand for increased heavy goods production. After the system of industrial expansion had proved itself, private industry would engage in long-term capital expansion in much greater amounts. The volume of such expenditure or investment could then be reduced

as the volume of private investment expanded. The two devices, public investment and coordinated advance planning of production, are thus not competitive but complementary. Each can play a vital part in the future life of the nation.

On one other point, not vital to my economic proposals, I would like to clarify my meaning. The book discusses the growth of Fascistic ideas in America in relation to unemployment and economic insecurity. It is quite apparent that in addition to these causes, the appearance of Fascistic ideas here is in part the result of intrigue from foreign countries. They seek to build up in the United States a body of regimented and intolerant public opinion ready to support Fascistic policies abroad and aiming eventually to overthrow democracy here. I do not deny the foreign origin of much of the propaganda here, but I still maintain that a positive program to insure security is one of the best weapons with which we can avert the danger. Hungry men are not likely to listen to the sweet voice of reason, but self-respecting workers and householders will fight to preserve their liberties and jobs. We must give every American such opportunities that he will know that his own share in our democracy is worth fighting for.

MORDECAI EZEKIEL

*Washington, D. C.*  
*July, 1939.*



We must provide real security for the crippled, the sick, and the aged. We must do all this through democratic processes. The peoples of the world look hopefully to America as the last stronghold of democracy. If we fail to meet this challenge, then the rising tide of darkness will engulf us too, and with us, all humanity.

MORDECAI EZEKIEL

*Washington, D. C.*

*December, 1938.*



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# JOBS FOR ALL



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# JOBS FOR ALL

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## I

*Would we rather plan for peace or for war?*

When proposals are made for industry-wide planning for increased production, we are told they are impracticable. We are told we are not ready for it. It involves too many sudden changes, too great shifts in our existing ways of doing things. Apparently 10 million wage earners and 25 million people must continue on the bare edge of existence. It is better, we are told, that they stay "ill-housed, ill-clad, ill-nourished" than that the business community be shocked by having to learn new ways of doing things.

Strangely enough, such doubts vanish in time of war. So long as our object is solely to put men to work, feed the hungry, and clothe and shelter the naked, then planning is taboo. As soon as our object is to wage war, then planning is embraced with open arms. In wartime we must produce bullets to kill men, bombs to shatter buildings and crush human beings, and poison gas to suffocate them. Airplanes are needed to drop destruction and big guns to hurl it. Men

must be trained in the art of murder with bullets and bayonets. When such things are to be done, then we plan regardless of all the difficulties.

Even during the World War, with the then-existing slim basis of facts and figures, we had the War Industries Board to direct our national production and the Shipping Control Committee to coordinate shipments overseas. The allies had the Supreme Economic Council to coordinate their production, the Allied Maritime Transport Council to direct their ships, and each country had planning agencies without end.<sup>1</sup> With all this past experience to go on, the files of the War and Navy Departments today are bulging with plans. As soon as our next war is declared, they will center all civilian industry and all civilian workers on the sole process of warmaking.<sup>2</sup> Bills are already being discussed in Congress to draft all industry into public service with the declaration of war. Companion bills are pending to raise taxes to heights far above all previous levels, and to seize not only a large part of all wartime profits, but also a large share of all personal incomes. We are beginning to appreciate that if we are to blow our substance into smoke we cannot consume it in food and clothing at the same time.

If once again we engage in war, there will be no hesitancy to plan. As long as we plan to produce only the means of destruction of human lives, homes, factories, and even of civilization itself, as long as all that we produce is to be blown into the air, then it is recognized as both proper and fitting that we should plan. It is also recognized that democracy shall have little place in such planning. The

<sup>1</sup> See J. A. Salter, "Allied Shipping Control," Clarendon Press, Oxford, 1921.

<sup>2</sup> See "Industrial Mobilization Plan," published by War and Navy Depts., especially sections on "Control of Economic Resources" and "Mobilization of Industry," pp. 10-17, Govt. Printing Office, 1936.

plans call for many democratic institutions to go into eclipse as soon as war is declared. Regulation of conditions of wages and labor, and the federal employment and conciliation services, will be transferred from the Department of Labor to the Administrator of War Labor, who will have full power to commandeer industrial labor. Prices, production, and industrial management will be regulated by the War Trade Administration. Our knowledge of what is going on in the world here or abroad will be limited and directed by a new wartime censorship and official propaganda, under the new Public Relations Administration.<sup>1</sup> Wartime hysteria will appear again. We will only be permitted to know or think what those in command of our government wish us to think. During the World War that hysteria led to stamping out at once as "disloyal" or "traitorous" any attempt by individuals to ask whether a given step was wise or unwise, any attempt to maintain short hours or good working conditions for the laborers, any attempt at dissent or criticism. If the war lasts long enough, we may expect to see here too concentration camps, federal penitentiaries, and near the front lines, firing squads, to welcome all those who as "labor agitators," "subversive journalists," or "enemy sympathizers," dare expose the propaganda or resist the dictation of our own wartime Fascists.

If we can plan in time of war, even at the cost of the suppression of democratic forms of government, why can we not plan democratically in times of peace?

The answer is probably an emotional one. In time of war there is no question as to what we are fighting for. There is the Enemy, for all to see, "threatening our honor, our lives, and our womenfolk." It is obvious that the thing we

<sup>1</sup> See "Industrial Mobilization Plan," pp. 16, 29-43, 65-69.

must do is to defeat him before he can destroy us. In time of peace, on the contrary, the enemy is not so concrete or obvious. True, Poverty may stalk the land. In every town and hamlet scores or thousands or hundreds of thousands may be cold and hungry and in despair. That is not dramatic in the way a positive Enemy is. The nation will watch with bated breath while rescuers battle to reach a single miner, caught by a fall of rock, or while police and detectives comb the country for a single kidnapped child. But we are so used to illness and suffering, so calloused to the results of widespread unemployment, that such headlines as these receive only a passing glance:

Hungry Mother Kills Self and Two Children.

Baby Smothered Sleeping with Parents;

No blankets for it to sleep alone.

Suicide Had Empty Pockets,

Man hangs self after meal in cafeteria.

Job Hunter Collapses on Street;

Girl had not eaten for 48 hours.

No Relief Available for Unemployed in Washington;

Neither public nor private agencies have funds for jobless employables.

New Generation Growing under Relief,

One-third of New York's children in relief families.

Majority of Youth Without Jobs;

Survey shows no jobs for 60% of graduates.

U. S. Rations Given Hungry;

Lines fed by federal agency in Cleveland.

Relief exhausts funds.

Eight to ten million may be reported unemployed. There may be 36 percent more sickness and 550 percent more disability among relief families than in average fam-

ilies. Such statistical facts roll off our minds without an imprint. We can not conceive of the meaning of such mass suffering.

Yet Poverty can be dramatized no less than war. A positive program to make real work for all can arouse enthusiasm and courage. When we are ready to start a full and lasting industrial expansion, there should be a stirring call to press forward *now* for a full-bodied War on Poverty. We should center our national effort *now* on expanding production and doing away with unemployment and poverty. We should use our democratic processes *now* for drawing programs for abundance and for putting those programs into action. When such an appeal is made there will be no question as to the mass reaction. Time after time at the polls the voters have endorsed vague promises of such action. Time after time panacea-vendors, like Huey Long, Dr. Townsend, or Father Coughlin, have drawn millions into their train. The 1938 elections show that this attitude is spreading. A sound program for abundance should arouse support even more readily.

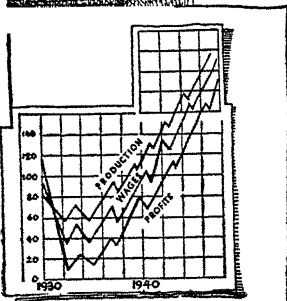
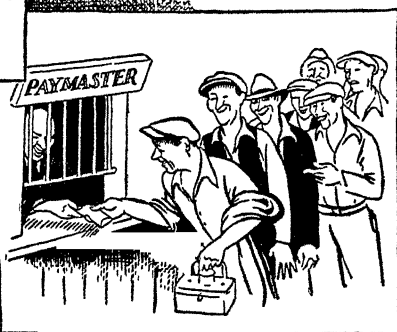
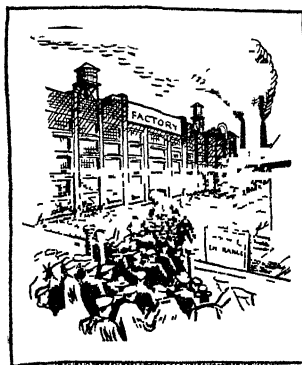
Even though the job be a hard one, and its undertaking a shock to present ways and customs, it can be done. If we can plan for war, we can plan for peace. If we can be regimented for destruction, we can organize ourselves democratically for production. If we can sacrifice our savings and our democratic institutions in the futile effort to defeat the Enemy abroad, we can far more joyfully join a great campaign to rout the enemy of poverty at home. In doing so, we will also demonstrate to a war-weary and war-fearing world the only safe path to peace, the creation of economic peace and plenty at home.





## PART ONE

# THE PROPOSAL





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PART I

*THE PROPOSAL*

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II

*What is Industrial Expansion?*

Economists, like doctors, frequently disagree. Yet there is one principle on which all economists agree. That is, that the people of any country can not long consume more than they produce. That universal rule holds true in all countries regardless of their economic systems. It holds true for Soviet Russia, Fascist Italy, or Capitalistic England and America. Unless the people can produce more, they can not, as a whole, live better. The problem of making more jobs and providing better living is therefore tied up with the problem of increasing our total production of the things people need.

We in the United States do not lack for technical knowledge of how to produce, or for means with which to produce. Our engineers, our mechanics, our chemists, our farmers, are among the most skillful in the world. Our people as a whole are well educated and intelligent. They combine ability to follow instructions with resourcefulness and initiative in meeting difficulties. Their minds are ever

active in finding quicker and easier and more efficient ways of getting things done. Our natural resources of every kind, land, minerals, and forests, are rich, abundant, and well developed. Our area is large and diversified. No tariff barriers or other artificial political restraints hinder the interchange of goods from one end of the country to the other. Europe, especially eastern Europe, seems distraught, contentious, split-up, and poverty-stricken compared to the wide, fat, and abundant land of America. Watching the difficulties of Europe, we frequently have reason to thank our lucky stars that we are living this side of the Atlantic.

But despite our great wealth, we do not produce enough to go around in this country. Tens of millions of our people are destitute. They are destitute not because we lack the basic means to take care of them. It is purely in the sphere of man-made arrangements that we are deficient. We have not yet learned how to keep all our people at work producing the things that they need so sorely. We know we must produce more if we are all to live better. We have all the necessary ingredients to produce more. But our arrangements for keeping men at work to make the things they need, and for providing them the income to buy the things they make, keep breaking down.

One fundamental difficulty in our business machinery lies in its lack of advance budgeting. Each concern has to operate more or less in the dark, trusting that what it produces will find markets. Some concerns do draw up quarterly or annual production programs, it is true, but they are only tentative programs, subject to speedy curtailment if things do not go well. We trust that competition will somehow lead each concern and industry to do what is best for the welfare of all of us. Yet we know that corporate organization and monopoly practices dominate

many industries. Concerns in such industries frequently make decisions in the interest of their own profits that tend to reduce employment rather than increase it. Sometimes the decisions are not even for the profit of the concern itself, but for the profit of a big banker who happens to be in position to control it. Recently, for example, a large industrial concern started to build houses for its workers. It let contracts for a new type of cheap, light-weight fixture. Its banker, learning of this, forced it to shift back to the older, more expensive types in whose production he was financially interested. Because of such monopolistic or self-interested restraints, competition does not work effectively in our industrial system today. No other adequate form of direction has taken its place.

The lack of planning in our industrial concerns has one very serious result. That is in its repercussions on the heavy industries which manufacture tools, machinery, and building materials. In our highly developed system, nearly as many workers are engaged in making capital goods such as these as are occupied in making products that are ready for use. When orders for such capital goods fall off, many men lose their jobs.

Activity and employment in the industries making tools and equipment are exceedingly unstable. That is because of the failure of other concerns to plan their capital expansion. Most business concerns put off enlarging plant or equipment, or even replacing worn-out machinery, until a business expansion catches all of them short. Then they rush to expand their equipment in a hurry, demanding from the capital goods industries two or three times as much as they would need if the expansion were spread out evenly over the years between. This failure of most business concerns to adopt an orderly and uniform program of plant expan-

sion results in the capital goods industries operating on a feast and famine basis. Some years they are going on three shifts a day with more orders than they can fill, and then in between there are long periods with almost no orders at all. The locomotive industry, for example, built 3,505 engines in 1923 and 636 in 1928. Then in 1933 it built only 57. The number of locomotives built from 1931 through 1936 added all together were less than one-quarter as many as were built in the one peak year, 1923. In order to build 835 locomotives a year on the average from 1920 to 1936, the locomotive industry had to be prepared to build more than four times that average in the peak year.<sup>1</sup>

A second fundamental weakness in our present business machinery is its failure to keep consumer buying power in line with production. In past periods of rapidly rising activity, increased operations have greatly reduced the unit cost of production. With the extensive control of prices by large-scale concerns, these declining costs have not been fully reflected in lower prices or higher wages. On the contrary, some industries such as copper and steel generally increase prices sharply at the very time that costs are falling. Management in such industries excuses such practices by saying that such periods of high activity do not last long, and that they must make big profits then to make up for the losses in the long slack periods in between. The result is, however, that in periods of rapidly rising business consumer buying power does not keep pace with production. After a time recession inevitably follows.

Advanced budgeting of industrial activity would cover not only increased production but increased consumer buying power. Manufacturers would be assured of satisfactory volume for a term of years ahead. Price and wage policies

<sup>1</sup> See *Railway Age*, January 1, 1938, Volume 104, No. 1, page 77.

would be worked out in advance, to give consumers, through lower prices, a fair share of falling costs, and to give workers, through rising incomes, increasing ability to buy and consume the products of industry. At the same time the programs would assure industrialists a fair and increasing profit, through assured sale of larger output at reasonable prices. Such industrial programs would provide not only increased production, but also expanding buying power to provide the market for the expanding product. The danger of recessions interrupting continued expansion would be greatly reduced.

Many advantages would result from advance budgeting of industrial operation, even of the crudest sort. The programs would certainly provide for a higher level of activity than we have today, or than we have averaged in the past. Factories and machines would be more fully utilized. More men would be employed. At the higher level of operation, labor would be more productive. In steel mills, for example, it requires 45 manhours of direct labor to produce a ton of steel when the plant is operating at 25 to 30 percent of capacity. When it is operating at 55 to 60 percent of capacity, it requires only 34 manhours per ton.<sup>1</sup> At the higher level, each manhour of labor produces about one-third more steel than at the lower. Similar economies would result in other industries. Our present railroad trackage with some additional equipment could easily handle twice as much freight as at present. Trains would run full and long instead of short and half empty. Not many more men would be needed to handle the doubled traffic. They would all work full time and earn more

<sup>1</sup> "Manhours of labor per unit of output in steel manufacture," *Monthly Labor Review*, U. S. Department of Labor, pp. 1155-1161, May, 1935.



pay. The railroads would make money, even if freight rates were reduced below their present unduly high levels. Similar increases in labor efficiency would be found in most other industries, for modern mass-production methods depend on full production *for the greatest efficiency*. The gains in labor efficiency, and the high volume of output, would enable industries to employ more men, pay better wages, sell at lower prices, and make better profits, all at the same time.

Most important of all, programmed industrial operation would enable business to increase its level of operation until at length there were jobs for everyone capable of working. Each concern would know when it started upon its program of production for the season or the year that there was an assured market for what it was going to produce. Each concern could enlarge its productive plant gradually and continuously, knowing that there would be a steady and expanding market for the increased output it was preparing to produce. In place of the uncertain and faltering course which results from our present hit-or-miss conduct of business, there would be much steadier and surer progress toward fuller activity, larger output, and more jobs and more pay.

The need for some form of business planning is generally recognized. A banker said to me the other day: "When a concern can't be certain what lies ahead, it's not safe to lend to them." We hear much of the need of confidence, so business can expand. Confidence depends upon assurance as to what the future holds. As one man defines it: "Confidence is suspicion asleep." Only the slightest upset is necessary to arouse the slumbering suspicion. When it is aroused, and doubt replaces confidence, business activity dries up rapidly, as we saw in late 1937. Advance budget-

ing is necessary so that each industry can operate on the basis of assured demand, of definite advance orders for the future. To the extent that production programs can provide industry such advance orders, it can remove the causes of suspicion or doubt.

It is one thing to recognize the need for industrial planning, and another thing to show how it can be brought about. Many people believe planning could be used only under full socialism, and accordingly oppose planning. There are less extreme ways, however, through which more order might be brought into our industrial system. Industrial Expansion is one such proposal.<sup>1</sup> The essential idea of Industrial Expansion is to have each of the key basic industries prepare tentative programs for expanding its operations and pay roll in the year ahead, and then to check and revise those tentative programs against each other to be sure they fit together properly. Then each concern in these industries will be given advance orders for the planned production, through contracts with a special government agency. These contracts will provide for the public purchase, at a discount, of any portion of the programmed production which remains unsold. Under these contracts, each concern will be safe in going ahead with the planned expansion in production and employment. The nation, in turn, will incur little risk in having the government underwrite the expansion in production, for the programs will be so drawn and fitted together that the increase in produc-

<sup>1</sup> This proposal was called "Industrial Adjustment" when its basic principles were first suggested two years ago, in my book "\$2500 a Year", published by Harcourt, Brace and Company, 1936. While the basic principles still stand, certain modifications of method and a clearer formulation of possible procedures have come out of the subsequent study and discussion of the original proposals. The name has been changed to "Industrial Expansion" to emphasize the central idea of a planned *expansion* of industry.

tion in each industry will just about match the increase in demand for the products of that industry.

Every idea for better planning of industry involves elements much like those just described. Scores or even hundreds of books have been written on methods for full-volume operation of industry. What is distinctive in the Industrial Expansion proposal is that it is not merely a suggestion for organizing and planning industry for full production. It also offers a definite political and administrative procedure for putting the suggestion into operation. It is believed that this procedure is workable and reasonable under our own American conditions. It will work through our regular political procedures. It uses only the recognized powers of Congress. It provides for democratic participation at every step. It employs only those methods of cooperation between business concerns and government agencies which have already proved administratively workable in other fields. Business will continue to be carried on much as it is now. With the expansion programs and the advance orders, industrial concerns will go steadily on to fuller production, more jobs, and higher wages, until work is available for every man or woman who wants a job. Industrial Expansion, or some other arrangement of the same general type, can provide for higher standards of living for all through the only possible course, increased and expanding production.

## III

*How will Industrial Expansion make jobs?*

Industrial Expansion will provide for expanding employment by having an appropriate government agency arrange with business concerns to increase their volume of operation. Before the national program is put into operation each major industry will be called upon to prepare programs of expansion. Both workers and employers in each industry will help in developing these industry programs. The expansion programs from the several major industries will then be checked against one another and revised where necessary to make sure they fit together. After that is done the designated government agency will give the concerns in each industry advance orders for the planned increase in production, by underwriting the expansion program and agreeing to buy any unsold surplus. Each concern will then know it can count on the increased output being sold. It will be safe in increasing its activity, putting more men to work and raising pay, as called for in the programs, and in starting to repair and expand its productive equipment. The increases in pay rolls and in the purchase of plant and equipment by industry generally will provide the market for the increased production.

For Industrial Expansion to work it will be necessary to secure the cooperation of most businessmen. This cooperation will be sought primarily through widespread discussion and acceptance of what Industrial Expansion aims to accomplish. The necessary legislation will not be passed

until it is supported by a majority of the people. When the idea has been generally accepted, the legislation will need to insure that all concerns in each major industry do cooperate. In industries where all concerns agree to cooperate voluntarily, no pressure will be necessary. Where some concerns refuse to participate, the government will have to see that all do cooperate. One way to do that would be to use the same method that the original A.A.A. used with farmers, but to use it in reverse. The A.A.A. taxed farm products and used the money to pay farmers to produce less. The Industrial Expansion Administration could tax industrial products and use the money to pay industrial concerns to produce more. The cooperating farmers got back the taxes paid on farm products, so it didn't really cost them anything. The cooperating business concerns would similarly get back the taxes paid on industrial products, so it wouldn't cost them anything either. In each case the tax is just a way of getting the farmers or the businessmen to work together. It's just a device for Congress to use in regulating interstate commerce. There are various other forms of sanctions that Congress could authorize to secure full cooperation, such as the use of licenses to operate in interstate commerce. The tax and benefit payment sanction is only one of those that might be used. The Industrial Expansion programs would be limited to industries big enough so that their interstate commerce is important. In its decisions on the Wagner Labor Act, the Supreme Court has ruled that Congress has the right to regulate such industries. There is a reasonable prospect that the Court would similarly uphold the power of Congress to regulate interstate industries to remove the restraints that now limit production and restrict the volume of interstate commerce.

After the industry programs are all ready, all the indus-

tries affected will start increasing their activities at the same time. As they expand their operations under Industrial Expansion programs, that will make more jobs. All major industries will be expanding at the same time, so new jobs will be opening up on all sides. That doesn't mean, though, that there will be jobs for everyone all at once. Out of roughly 42 million city workers, only about 33 millions had jobs in November, 1938.<sup>1</sup> If Industrial Expansion were started now, business couldn't make new jobs for all the unemployed at the same time. Some would not be able to work until they have learned new trades or how to handle new machines. Definite means should be set up to retrain such men. Under successive Industrial Expansion programs business will expand more each succeeding year. Some men will find jobs the first year. More will find jobs in the further expansion of the second year. If the programs work moderately well, the third year's expansion should absorb most of those left. After that there would be about as many jobs as there are men and women able and willing to work. Thereafter increases in total production will depend largely on gains in efficiency.

When Industrial Expansion is first put into action, it will not be easy to keep the expanding needs for labor in balance with the men in need of work. In many industries the new jobs will be largely for skilled or semi-skilled workers, capable of repairing or operating complex automatic machinery. Many of those who need jobs are unskilled laborers, or have had experience only in other lines of work. Many of the older men have lost their skill and their initiative through years of idleness. Special training programs will need to be set up to give such men training for the new

<sup>1</sup> For the source of these and other data not especially noted, see the Appendix.

jobs. In many cases additional education in elementary subjects will be needed to raise the level of jobs the men are capable of holding (See Chapter VI for a more detailed discussion of how this retraining program might operate.) Many men may prove incapable of holding down a real job, no matter how much additional training they are given. If the number of such men exceeds the number of men needed for common laborers, watchmen, etc., they and their families would continue as relief problems.

Once the expansion programs begin to work effectively, it will be possible not only to employ more and more men, but also to pay better wages. The increased output will cut costs and increase labor efficiency, and that will help the business concerns to pay better wages. Just how that can be done will be explained in the next chapter.

At the same time that more men are hired and wages are increased, prices of some products will be lowered. In certain highly-mechanized heavy industries, costs fall rapidly as output rises and as technological efficiency increases. In such industries part of the reduced costs will be shared with consumers through gradually reduced prices. This will widen the market for such products, and enable consumers generally to share in the benefits of the technological improvement.

When business concerns expand their activities under Industrial Expansion programs, all industries will not increase their output in the same proportion. If they did that there would be too much of some things and too little of others. We don't use much more salt in good times than in bad, so there wouldn't be a market for it if there were a big increase in salt production. Much the same thing is true of bread and potatoes. But many people do need a lot more milk and fruit and meat than they can afford today.

Production of those foods would need to increase. Millions of families have no decent clothes, or furniture, or rugs, or houses. Production of such things could be increased very greatly, and still not oversupply the wants of those who had just found jobs. The increase in what the people and the factories need of each thing will have to just about balance the increase in the supply of that product. The programs of expansion for each industry would be calculated to bring that about as nearly as possible.<sup>1</sup>

It will be difficult to keep the increases in production in balance with the expanding demands for goods. This will present especial difficulties in the first year or two. The plans will then be more or less imperfect, and industry will not be used to operating under them. No matter how carefully the plans are developed, mistakes and oversights will appear at first. Surpluses of some raw materials will pile up which the finishing establishments may not be ready to use. Too much cotton cloth may be woven, and too little woolen serge. Structural steel production may expand faster than building construction, while the automobile industry may be held up by an insufficient supply of steel sheets. Capacity may be found too short for some products, and expansion in them may be retarded until new plants can be planned and built and put into production. Although one object of the programs will be to anticipate the possibilities of such bottlenecks and to take care of them in advance, no plan can be perfect. Many hitches will develop, and many emergencies will arise to be solved in a hurry. Mistakes will have to be balanced off by the government buying up unsalable surpluses, and holding them tem-

<sup>1</sup> For a detailed examination of how production increases can be balanced among individual products and individual firms, see Chapters XI and XII.



porarily in an "ever-normal warehouse." Only if the leaders of industry and labor give their wholehearted support in attacking such problems as they arise, and in modifying the advance plans where necessary to fit unanticipated difficulties, will it be possible to carry out the expansion in the early years. As experience is accumulated both in drawing the programs and in putting them into action, and as all units learn their jobs in the process, the programs will work more and more smoothly and effectively. To reach that end, though, it will be necessary to keep on trying to work out the plans to function smoothly. It will be necessary to avoid changing the basic legislation so frequently that industry and labor are unable to learn how to operate under its provisions.

Industrial Expansion promises to provide a method through which business concerns can expand their activity in a balanced way. The increase in the production of each industry will tend to provide markets for the increase in the production of other industries. The receipts from the sale of the expanded output will provide the money to hire more men, pay better wages, and make bigger profits. The increase in pay rolls and incomes will provide the purchasing power to buy the larger output. It may be objected that this is merely a scheme for us all to keep busy taking in each other's washing. But that's all that economic life is. It's only when we take in each other's washing and mending and shoemaking and baking that we all are busy and prosperous. When we stop doing that we all are hungry and cold. That's what troubled us in 1938. Because of the slowing down of business, too many of us stopped taking in each other's washing. Industrial Expansion offers a method to put us all back to work again, working for each other.

That summarizes the essential ideas of the Industrial Expansion proposal. There are lots of details, of course. The rest of this book is devoted to explaining a few of them. When we actually attempt to put Industrial Expansion to work, we will find many specific problems to be solved that no man can foresee in advance. We will find plenty of headaches and difficulties. It will not be all easy sailing. But if our experience with the A.A.A. is any guide, we will find that many of the things we may think are going to be hardest to work out aren't so difficult after all, while we may run into snags where we least expected them. If the basic policy is right, the administrative problems can be solved. If the thing is worth doing and is properly thought out, and is understood and supported by businessmen and workers, ways can be found to do it.

That's all there is to the central idea. Industry will expand in a properly balanced way. Men will go back to work. Production will increase. Prices and wages will be adjusted in line with the increased output and lowered costs. People will be able to buy more. The increased production will be sold and will provide the money to meet the higher pay rolls. When we really try to solve our economic problems in that simple and common sense way, both poverty and unemployment can be conquered.

#### IV

### *How can wages be increased?*

The extent to which Industrial Expansion might raise wages will depend upon the economic conditions at the time when Industrial Expansion is first put into action. It

might be adopted at a time when business is depressed and employment and wages are both low. Even if the first Industrial Expansion programs were only partially effective, they would still increase employment fairly rapidly above the depression levels, and soon make possible a material rise in wages. On the other hand, Industrial Expansion might conceivably be adopted at a time, like 1928 or 1929, when business activity was at boom levels, most men were fully employed, and wages were moderately high. Put into action under such conditions, the major task of the production programs would be to keep activity up and to prevent the business crisis and collapse that otherwise might soon occur. Only after the readjustments necessary for continued high activity were carried through would it be possible to direct the programs toward still higher levels of activity and pay rolls.

Usually only when we are sick, however, do we feel the need of consulting a doctor. Only when business is prostrate and large numbers of workers are unemployed are we likely to make far-reaching changes in our economic system or to adopt new methods of industrial guidance. The probabilities are that the only time we would be likely to give Industrial Expansion a chance to show what it could do would be when the industrial system had broken down so badly that there was general agreement that it was in need of overhauling. Accordingly we may discuss how Industrial Expansion could increase employment and wages on the assumption that it would be put into action at a time when industrial production was low, many men were unemployed, and sales and profits were both unsatisfactory.

The first effect of Industrial Expansion on the ability of industry to pay better wages would come from the in-

creases in production which its programs would help bring about. When factories operate far below capacity their costs are high. The whole plant has to be cared for even though only part of it is in use. Assembly lines are slowed down, or many of the workers' places are empty. Under these conditions workers can't turn out as much per day as when everything is going full blast. It usually increases labor costs per unit for business concerns to operate way below capacity. When factories operate nearer capacity their labor goes further, and they can afford to pay higher wages. Facts from many studies show this. The figures from the steel industry are referred to elsewhere.<sup>1</sup> The automobile industry shows the same thing. In 1932, running at less than one-third of capacity, General Motors produced 4.85 cars per man employed. In 1936, operating at practically full capacity, it produced 8.84 cars per man employed. The number of workers per car was nearly cut in half.<sup>2</sup>

There are, it is true, certain limits to the reductions in labor costs from increased output. In May 1937 the steel industry was operating at 90 percent of capacity. At that level it brought back into operation many old mills. Using those old mills lowered labor efficiency. More new modern steel mills will have to be built before high efficiency can be secured for output above the practical capacities of the existing modern plants. New continuous strip mills, almost completely automatic, are now being built. But they in turn depend upon practically continuous and full-capacity operation to yield their inherent efficiency. The more auto-

<sup>1</sup> See Chapter II.

<sup>2</sup> Basic data for computations taken from issues of Moody's *Industrial Manual*.

matic the machinery, the more need there is to keep it going full blast.

Under the Industrial Expansion programs it will also be easier for business concerns to find markets. When each concern can expand its output only by taking markets away from its competitors, selling is expensive and difficult. Under Industrial Expansion there will be markets for all that is produced, for buying power will expand as fast as production. Every well-run business can make good profits when it can run to capacity and sell all it produces. It can pay higher wages and still make larger profits at the same time. Even though the first Industrial Expansion programs will not carry most concerns all the way up to full production, it will help them recover from the depression levels. The nearer the successive programs carry them to full production, the more they will be able to increase employment, wages and profits.

The way in which business concerns can pay higher wages under Industrial Expansion can be seen more readily from a specific case. For example, let us consider a moderate-sized cement plant, with five cement kilns. Keeping all five kilns going except when they have to be closed down for relining or other repairs, the plant has a practical capacity of 2,000,000 barrels a year. This concern is in an industry where output per worker varies sharply as the plant is operated near to, or far from, its capacity. Studies by the Department of Labor show that the hours of labor used in producing 100 barrels of cement in such a 5-kiln plant are 140 percent higher where only one kiln is operated than when all five kilns are being used.<sup>1</sup>

<sup>1</sup> Bernard H. Topkis, "Labor Requirements in Cement Production," *Monthly Labor Review*, Vol. 42, No. 3, p. 575, March, 1936.

Let us assume that Industrial Expansion is put into operation at a time when the concern is operating only one kiln, or 20 percent of capacity.<sup>1</sup> If by the third year, the Industrial Expansion program increased its average operations to 80 percent of capacity, how would that affect the concern's employment and wages? Here is about how it might work out:

	<i>Before Industrial Expansion</i>	<i>Under Industrial Expansion</i>
Cement Production	400,000 bbls.	1,600,000 bbls.
Percent of capacity operated	20%	80%
Output per worker per year	2,955 bbls.	5,810 bbls.
Workers and salaried employees (at full time)	135	275
Average pay per year per employee	\$1,200	\$1,800
Selling price, per barrel of cement	\$1.50	\$1.35

Production would be multiplied by four, employment would be doubled, pay would be increased 50 percent, and cement prices would be reduced 10 percent. How would all that affect the earnings of the concern? Its financial budget would then work out about as follows:<sup>2</sup>

<sup>1</sup> Actually such a concern would probably run three kilns for four months or two kilns for six months. Even so, the labor efficiency would go down in consequence.

<sup>2</sup> In these calculations, the labor requirements are based upon the studies of the Department of Labor, already cited. The relative expenditures for labor, materials, and overhead are estimated from the reports for this industry in the Census of Manufactures.

	<i>Before Industrial Expansion</i>	<i>Under Industrial Expansion</i>
Expenses:		
Interest, overhead, other fixed charges	\$450,000	\$450,000
Materials, fuel, repairs, at 60 cents a barrel	240,000	960,000
Wages and salaries	162,000	495,000
Total Expenses	<u>\$852,000</u>	<u>\$1,905,000</u>
Expense per barrel of cement	\$2.13	\$1.19
Receipts:		
at \$1.50 per barrel	600,000	
at \$1.35 per barrel		2,160,000
Loss	<u>\$252,000</u>	
Profit		\$255,000

Operating at one-fifth of capacity on the average, the concern was losing \$252,000 a year. With the production increased to nearly full capacity under Industrial Expansion the concern would make net profits of \$255,000 a year. It would make these profits while reducing the price of its cement, even though the prices it pays for its raw materials—limestone, coal, electricity, firebrick, etc.—were not reduced. At the same time it would greatly increase the pay of each worker, and its total pay roll would be tripled. If similar reductions in prices were made by the limestone, coal, and brick industries as a result of reduced unit costs there also, it could sell its cement even more cheaply.

Not all industries would show as dramatic changes as the cement or the somewhat similar iron and steel industries. These are some of those that go down deepest in depressions, and come up most rapidly in recovery periods. Even

in the cement industry, full recovery could not be secured in one year. The increases just shown in production, employment, wages, and profits might be reached only gradually, after several years of expansion programs. But this illustration does make clear how wages can be increased under Industrial Expansion, how some prices can be reduced, and how employment, pay rolls, and profits can all increase at the same time.

Under Industrial Expansion, industrial concerns will pay higher wages, and some will sell at lower prices, from the same source that they have increased wages and reduced prices in the past—from the increased value of what each worker produces. In most industries, the increased value will not come from higher selling prices. Instead, it will come from the larger physical volume produced per worker, both per year and per working hour.

In the past, workers have secured wage increases only slowly. In many industries the pressure of organized labor, through union agitation, strikes, and sometimes violence, has been necessary before labor could secure, as higher wages, its share of the increased value of each worker's product. Even then labor has frequently not been able to get all that really belonged to it.

Over long periods of time, technological efficiency has gone up faster than wages. Business concerns in many lines have diverted too much to profits and too little to higher wages or lower prices. This is very clear in the business records of the New Era that preceded the Hoover Depression. Business was very prosperous both in 1923 and 1929. Between those two boom years, the total value of our national production went up about 20 percent, as shown by the changes in our national income. But that increase was not evenly shared between labor and capital. The amount



paid out by business to workers increased from 44.7 billion dollars to 54.7 billion dollars, or by 22 percent. The amount paid out to capital, as interest and dividends, increased from 7.3 billion dollars to 11.0 billion dollars, or by 50 percent.<sup>1</sup> Payments to capital increased more than twice as fast as payments to labor. Only a relatively small proportion of our population receive their main income from capital, while a very large proportion of our population receive their main income from wages. The failure of pay rolls to match production kept buying power from keeping pace with industrial productivity. A long business decline followed.

Wage increases will not come painlessly, however, even with larger production. The lowered costs and larger sales out of which higher wages might be paid can be split between lower selling prices, higher wages, and larger profits. Each year, when the expansion program is developed for each industry there will be a real tug-of-war over this division. The authority, or central program-making unit for the industry, will include representatives of organized labor, management, consumers, and government.<sup>2</sup> Each will try to get the best deal it can for the group that it represents. The government representative will try to see that the division is best in the whole national interest. There will, however, be one big difference from the present situation. There will be more to divide, so every interest can get something for itself. Today, when higher wages may mean lower profits or higher costs to consumers, wage increases are difficult to secure. Under expansion programs, it will

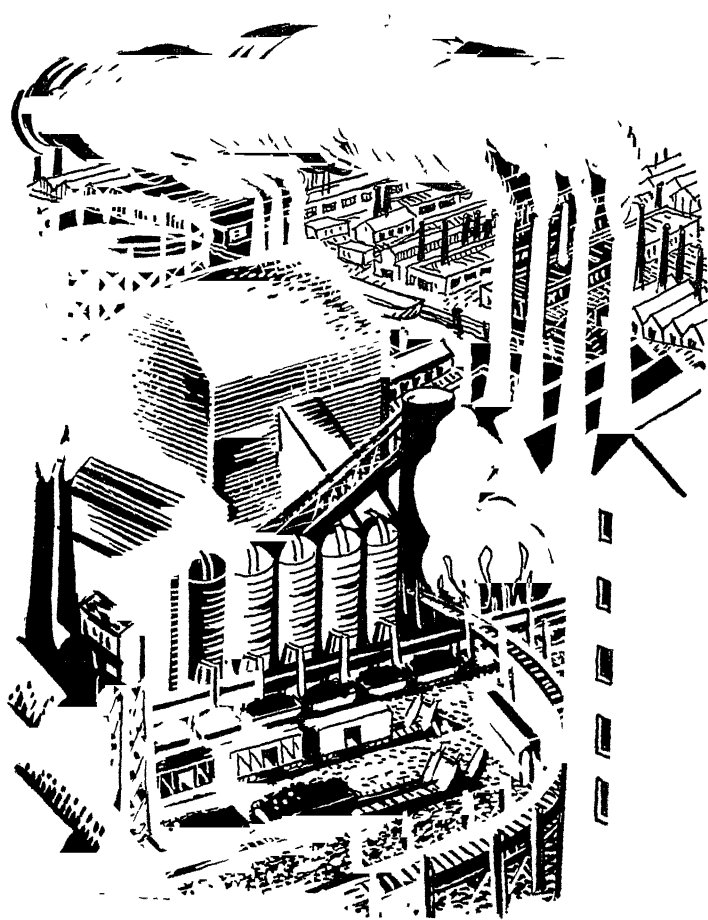
<sup>1</sup> These data are compiled from Simon Kuznets, "National Income and Capital Formation," 1919-1935, National Bureau of Economic Research, pp. 62-67, 1938

<sup>2</sup> See Chapters VIII and XVI for a discussion of how these industry authorities would work.

be possible to have higher wages, larger profits, and lower prices all at the same time. It will be easier to work out a fair and satisfactory division of the gains.

When Industrial Expansion is put into action it will increase both pay rolls and profits. It will increase them in a balanced proportion. In this way it will help prevent the development of such unbalanced conditions as preceded the depression of 1929-1933. Higher wages under Industrial Expansion, increased gradually as justified by the increasing productivity of labor, will contribute to better sustained business activity, better sustained employment, and better sustained profits.





PART TWO · LABOR



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PART II

LABOR

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V

*How will a man get a job under  
Industrial Expansion?*

The introduction of definite expansion programs for industry would not change the present ways of finding jobs. Jobs will be looked for much as they are now. The job-hunter will go to the local office of the employment service to learn of jobs open, or will answer newspaper advertisements. If a boy is finishing school, the vocational guidance officer may already have helped him in the selection of the kind of work he is preparing himself to fit into, or the placement officer at the school or employment office may have put him in touch with a prospective employer months before. His final shop work or other vocational preparation will then have been aimed directly at the job he expects to fill.

Once Industrial Expansion succeeds in getting industry operating at full capacity, though, there will be one big change from the present. There will be about as many jobs looking for men and women as there will be men and

women looking for jobs. Of course this result can't be attained in the first or even the second year's program. Some W.P. A. projects and other government relief work will still be needed to fill in the gaps. By the third or fourth year of Industrial Expansion, however, if the program works effectively, the steady increase in production should carry business activity up to the level where there will be as many jobs as there are workers. From that point on, the number of workers actually or potentially available for each industry will be just as important a limiting factor in working out the industry plans as will the supplies of raw materials and the prospective demands of consumers. After all the effective workers are employed, the introduction of labor-saving machinery, the development of time-saving processes and the development of more efficient methods of marketing will need to be pushed with full speed. From that time on increased efficiency of production will mean not fewer men at work, but higher production, higher incomes, shorter hours, and higher standards of living for all workers.

As full employment is approached, the process of planning will be expanded to cover not only the proper balance between the production in major industries, but also the proper conservation and utilization of the available manpower. Retraining programs will aid displaced workers to fit themselves for new jobs in the industries where prospective labor shortages threaten. Vocational guidance advisers and school placement officers will tell their students in what industry and occupations the greatest future demands for labor lie. They will help them direct their training along lines that will most surely fit into real jobs later on.

Today the boy who enters West Point, Annapolis or the

Coast Guard Academy is the only one who is sure that a job is waiting for him when he graduates from school. He is assured, if he completes the course of one of the service academies, of a job as Second Lieutenant or Ensign when he finishes. Nowhere else is there such assurance. Instead, in all too many cases, graduation from high school or even from a technical or professional college is followed by months and even years of heart-breaking, morale-destroying search for work. In Washington, D. C., today, not only skilled clerks, and expert carpenters and other craftsmen, but graduate lawyers and engineers as well, are driving taxicabs. That overcrowded and unremunerative calling is the only one freely open for jobless men to enter.

June, 1937, marked the peak of employment in this country since 1929. In that month the number of employed reached the highest point in eight full years. Over 35 million people had jobs that month, in addition to those working on farms. The number at work then was only two million less than our all-time high in September, 1929. But on June 30, 1937, there were 5,016,014 people who wanted jobs listed with the U. S. Employment Service. In that month 374,027 people found employment through the Service, while 337,930 new people applied. The net reduction in the job-hunters listed was thus only 36,097. Only one new job was located for every 139 persons looking for work. There were 1,121,055 women who wanted jobs. Jobs were found for 84,714 women and girls, while 112,055 new female applicants were added to the list. There were 3,894,507 men who wanted work, while only 63,438 men more were placed than were added to the list. Even at the peak in 1937, one new job for every 61 men, and no new jobs at all for women and girls!

Yet only half the jobless were listed with the U. S. Em-



ployment Service. The chances of getting work were so small that many people didn't even take the trouble to enroll. In many towns only those who were so down and out they had to go on relief registered with the Employment Service, and then only because they had to be registered before they could get relief. But they knew it wouldn't do any good. In June, 1937, the best month, there was only one new job for every 139 job-hunters. By June, 1938, when the '37-'38 recession was near bottom, three job-hunters were added to the rolls of those looking for jobs for every one who was placed in a job.<sup>1</sup> You can't create prosperity that way.

When Industrial Expansion is put into action it will greatly change all that. It will expand the number of jobs until they catch up with the number of job-seekers. It may never promise to a boy entering school exactly what job he will find when he graduates. It would be both undemocratic and undesirable to impose such inflexibility upon the whole of our society. But Industrial Expansion will guarantee him a fair chance to find a job when he is ready for one. He won't have to suffer the heart-breaking experience of being one out of a hundred applicants for every opening. When there are as many jobs as there are men there will be a fair field for each man or boy, woman or girl, to find the job that he or she is best suited for. Free Americans will ask no more. Then indeed will the opportunity to work, as now is the opportunity to starve, be equally open to every one.

<sup>1</sup> In that month 803,470 new applicants were added to the rolls, while work was found for 246,285.

## VI

*What working and living conditions will  
Industrial Expansion provide?*

The natural resources of this country, both in materials and in men, are the highest of any in the world. Industrial Expansion offers a way which promises to employ those resources and men more effectively and more fully than we have ever employed them in the past. Engineers assure us that we are capable of producing substantially more than we have ever produced. If we can operate the expansion programs so effectively as to come anywhere near reaching those promised levels, we can not only employ all our people, but we can establish wages and working conditions higher than most workers have ever enjoyed. In addition to the higher wages, working and living conditions should eventually be raised to cover the following elements:

(1) *A uniform 5-day week of not more than 8 hours per day.* The two day week end will give the worker time for rest, gardening, short trips, sports, and other recreation. It will offset the strain on workers from high-speed mechanized work. In some industries such as railways, steel, or rayon, continuous service or continuous production processes must be maintained. Even there each worker can be given two consecutive days off each week, by staggering time off for individual workers.

(2) *A regular vacation period with pay.* This might start at two weeks in industries that have heretofore given no paid vacation. The objective will be a month's vacation

with pay each year for each worker. Within three years after the first programs are begun it should be possible to achieve this.

(3) *Clean, sanitary, and healthful working conditions for all employees.* Guaranteed volumes of business on an increasing scale will give business men the assurance of continual activity and income. This will make it possible for them to tear down and rebuild on a modern scale present unhealthy plants. There are many antiquated factories and stores, and sweatshop basements and lofts, that are still in use. After the initial two or three years of expansion programs provide employment for most of the unemployed, subsequent industry programs will provide for rebuilding factories and plants for comfortable, healthy, and efficient production.

(4) *Reduction of speed-up tensions on workers.* There should be an intensive public program of industrial research, plus newly-intensified research in commercial laboratories. This will speed the substitution of automatic machines for machines requiring continuous monotonous movements by the workers. The definite assurances of expanding markets, plus protection for displaced workers, will encourage management to put these machines into use as rapidly as developed. Labor unions will have equal voice with management in drawing up industry programs and in other phases of industrial planning. This will enable unions to protect workers against undue speed-ups and stretch-outs where hand processes still remain.

(5) *Protection of workers displaced by technological improvements.* The unemployment compensation provisions of the present social security law would need to be modified to give increased protection to workers displaced by new techniques. A special government agency would

be created not only to aid such workers to find new jobs as is being done now, but also to give them new special training to fit them for the jobs. During the period of retraining unemployment benefits on a scale far higher than present payments will provide them sustained income.

Eventually the work of the occupational retraining service and of the industrial planning authorities would need to be coordinated to balance the rate of introduction of new laborsaving machinery with the rate at which those undergoing retraining are being absorbed. This will insure that the number of workers thrown out of occupations during any one period will not be larger than the number that can be supported, retrained, and reabsorbed in new jobs during the same period.

Planning under Industrial Expansion will thus be aimed not only at providing for a balanced continued expansion by commodities and services. It will also be aimed at providing for a balanced and effective use of the nation's manpower, and for job security for every worker. Before this could be accomplished we would have to know much more than we do now about the prospective needs for workers in each occupation, and the prospective supply of workers trained for each occupation and industry. Such data are badly needed right now, to help guide youngsters preparing themselves for various occupations and professions. The President's Advisory Committee on Education recognized this need in its recent report, and recommended that an Occupational Outlook Service be established in the Department of Labor. This service would prepare reports on the supply and demand for men for each industry and occupation in the same way that the Agricultural Outlook Service of the Department of Agriculture has for many years predicted coming changes in the demand and supply

of farm products. Whatever progress is made in developing Occupational Outlook reports will make it easier to deal with the problem of fitting workers and jobs together when Industrial Expansion is put into action.

(6) *Sickness, accident, and retirement benefits and pensions on a scale far more adequate than at present.* The greatly increased level of national production and income will provide the wherewithal to establish decent standards of living for all the injured, sick and aged. The old-age pensions might be based on federal taxes, on employee contributions, or on industry pension plans. How far they should be based on each is a matter which need not be explored here. What is essential is that increased quantities of clothing, houses, and food will be available at the time the old folks need them. Increased national production will provide the things needed to make possible more decent living for all the old people, the sick, and the handicapped, now alive and in want. How this can be done is worked out in detail in the next chapter.

(7) *More adequate schools, hospitals, and other facilities.* In many parts of the country today the average man is handicapped by his inability to get a proper education. In those areas the schools are poorly equipped; many of the teachers are poorly paid and poorly trained themselves; the school term is too short; and the books and other materials are often out-of-date or inadequate. Yet the poorer regions are already taxing themselves more heavily than other regions, and are spending as much or even more on schools than they can afford. The poverty of regions like the South thus moves in a vicious circle of low income, poor schools, ignorant or unskilled workers with low productivity, and resulting low income. After a careful study of this situation, a special committee appointed by the Presi-

dent has recently recommended a broad program of federal support to education, libraries, etc., especially for the poorer sections of the country.<sup>1</sup>

There are similar needs in the field of public health. Many communities are without proper hospital facilities. Many have no visiting nurse service. Many low-income groups are without any type of medical or dental care. A comprehensive program to deal with this problem through federal aid is now being developed.<sup>2</sup> The average maternal death rate at child-birth in this country is 0.57 percent, as compared to 0.28 percent in Norway.<sup>3</sup> This is merely one item to show how far we are behind in proper health facilities and practices. Even the American Medical Association, which previously had resisted all attempts to deal with the problem by public action, more recently has been concerning itself with considering various proposals for collective action. It seems to be prepared to shift its position from opposition to public action in this field to aiding in determining what the action should be.

Individual states, especially in the poorer regions of the country, cannot meet the needs for more adequate support for education and health. Only central support through

<sup>1</sup> The Advisory Committee on Education, "Report of the Committee," Govt. Printing Office, Washington, 1938.

<sup>2</sup> Helen Hall and Paul Kellogg, "The Unserved Millions," *The Survey Graphic*, Sept., 1938, "Proceedings of Conference on Better Care for Mothers and Babies," Children's Bur. Pub. 246. Dept. of Labor, 1938; "The Need for a National Health Program," report of the technical committee on Medical Care, Interdepartmental Committee to coordinate Health and Welfare Activities, Washington, 1938.

<sup>3</sup> These data are for 1936 for the U. S., and 1935 for Norway. Our maternal mortality rate is higher than all but four out of 23 countries, for which data are available for 1934, '35, '36, or '37. Only a slight part of this difference is due to differences in the methods of classifying deaths in the two countries. See Elizabeth C. Tandy, "Comparability of Maternal Mortality Rates in the United States and Certain Foreign Countries," Children's Bureau Pub. No. 229, U. S. Dept. of Labor, 1935.

the federal government will be effective. The ability of the federal government to provide funds for these permanent activities is largely determined by the nation's industrial activity and income. Positive action to increase production, employment, and income through some such means as Industrial Expansion, will provide the federal government the means to attack these other social problems on a broad and permanent basis.

(8) *Decent housing at reasonable costs.* The housing program under Industrial Expansion will provide for a continuous building program aimed at re-housing all workers in comfortable, modern quarters. Even with \$2500 a year income, a worker's family should not spend more than \$600 a year on housing, including heat and light. That means that \$35 a month is about all the rent they should pay, if they are to have enough left for coal, gas, electricity, food, clothing, and other needs.

The housing program will be directed at providing the right kind of housing at the rent or price workers can afford to pay. Increasing the volume of construction up to 800,000 new family units a year will use to capacity existing building-material factories, lumber yards, and hardware stores. At this guaranteed full-capacity operation, concerns producing or distributing building materials can reduce prices and still make very satisfactory profits. Much of the actual construction itself can be reorganized on a large-scale basis. Material will be bought in large quantities. Some of the craftsmen most used, such as carpenters, bricklayers, and building laborers, will be employed on an annual-wage basis. Materials will be pre-cut on the job, or prefabricated. Sites will be planned and laid out so as to assure permanent community values, plenty of space for air and play, and quiet congenial surroundings.

There is ample actual experience already with such large-scale housing construction, both by private concerns and public authorities in England, and by the Farm Security Administration in this country. This experience shows that a house which would cost \$5,000 to build under ordinary practice can be built by large-scale methods for \$3,750, even with only moderately large volume, and even while paying craftsmen on the hourly wage basis. Under the assured capacity operation of Industrial Expansion, the cost can be reduced to \$3,000 or less. Such a house or apartment will rent for not more than \$30 a month. For the first time this will provide decent housing at a cost the average family can afford to pay.<sup>1</sup>

At 800,000 family units a year, it would take a dozen years to provide new housing for half our families, even if all the new houses were built for the poorer families that have never been properly housed heretofore. Some individual construction will also continue for the houses of the wealthy and well to do. Under the expansion program costs of construction for houses that now cost \$5,000 to \$15,000 will also be reduced by increased output and large-scale methods. This will make more adequate housing available for the middle-class families that will have their income raised with the expanding prosperity under Industrial Expansion.

Continuous experimentation and improvement in ready-cut and prefabricated houses will also continue, making possible as the years passed still further reductions in cost, and still further increases in the quality and comfort of the housing enjoyed by the average worker.

Not only will the average worker receive, under Indus-

<sup>1</sup> For more details on the place of housing under Industrial Expansion, see Chapter XX.



trial Expansion, a much larger annual income than he has received in the past, but as the housing shortage is gradually made up, he will find that his rent will buy more and more comfortable and satisfactory housing for him and his family.

Industrial Expansion will thus aim to give every worker, not only assured employment and larger income, but also greatly improved working and living conditions. Some of these elements of better working and living can be seen now. They include the 5 day week, vacations with pay, proper factory working conditions, less slave-driving, new jobs if machines destroy the old ones and pay while being retrained, fuller protection against sickness, accident and old age, better schools, hospitals, medical care, and better housing at lower costs. It would take several years to realize all these aims. As that is done, new wants will appear, and higher aims will be set. Future Industrial Expansion programs would insure a continuous further increase in production. This would in turn provide the means to satisfy the unknown wants of the future. So long as we continue to plan the use of our resources and our man power to satisfy our needs without the recurring breakdowns we have had heretofore, we should continue to move forward in a steadily ascending spiral of better living conditions and fuller lives for us all.

## VII

*What old age pensions can be provided through  
Industrial Expansion?*

Our present industrial system drains a man dry and then tosses him aside as ruthlessly as if he were a worn-out tool. Except in the few places where pension systems had been developed, industry prior to the Social Security law took no responsibility for the men who used up their lives in its service. When they were old and broken, and more and more frequently, while they were still strong but merely somewhat slowed down by age, they were pushed aside in favor of younger and faster men. Without income and usually without savings enough to last for any length of time, these old folks were dependent on relatives or charity. It is difficult to say which produced the more unhappiness or the more desolate lives.

The Social Security Act marks the first great step toward providing for the aged. As yet, the old-age assistance payments care for only a small proportion of those who need help, while its insurance payments, when they do start in several years, will be distressingly low in most cases.

These are the reasons why old folks and their relatives, desperate for help, have turned to all sorts of panaceas in the search for relief. Townsend taxes, stamped scrip, and many other forms of fancy money have resulted. Yet these panaceas evade the fundamental issue, that the only way the aged can live better is by our economic system both producing increased quantities of goods and services to provide for them, and providing the income to buy those

goods and services. Industrial Expansion provides a positive way to do this on a rational and sound basis.

At the present time the government has only a limited ability to provide pensions to the aged and support to others unable to work. The revenues received by government agencies are low because of the low level of industrial production and national income. The expenses of the government are high because of the need to relieve unemployment, provide public works, and stimulate recovery. Temporarily the Federal Government is drawing heavily on its credit, and is spending much more than it is taking in. That is justified as a temporary "pump-priming" device to stimulate general recovery. The need for old-age pensions, though, is a permanent need. Government expenditures for pensions must be regarded as a permanent continuing part of our system. The only way that the government can safely assume a permanent burden of paying adequate old-age pensions is by assuring itself of adequate revenues to pay the cost.

Expansion of industrial employment and production to the extent of our resources will greatly increase national income. The government will have its revenues increased, while the need for relief expenditures will be greatly reduced. It would then be possible to provide far more amply for the aged, the handicapped, and the infirm on a perfectly sound and sensible basis without any monetary magic, unbalanced budget, or new taxation.

The way in which Industrial Expansion will raise the level of government receipts can be clearly seen from previous experience. Between 1929 and 1931, national income paid out fell from 79 billion dollars to 62 billion dollars, or by 22 percent.<sup>1</sup> With federal tax rates remaining about the

<sup>1</sup> See Appendix, Table 1.

same, the corresponding federal revenues fell from 4.2 billions to 2 billions.<sup>1</sup> Between 1934 and 1936 the national income paid out to individuals in the United States increased from 51.5 billion dollars to 62.6 billion dollars, or by 22 percent. The corresponding federal revenues increased from 3.3 billions to 5 billions, or by 52 percent.<sup>2</sup> (Tax rates had been increased by the New Deal over the 1929-31 rates, but were at about the same levels for 1934 and 1936 incomes.) Both on the way down and on the way up, federal revenues thus change relatively more than does national income. If the present levels of tax rates were maintained while national income was increased to 80 billion dollars, federal revenues (other than Social Security taxes) would probably rise to about 9 billion dollars. Revenues would rise still further as national income increased still higher. A 100 billion national income would mean about 12 to 14 billion federal revenues, if present tax rates were kept unchanged.

State and local revenues also would rise with increasing production and national income. These revenues, however, are based largely on real estate and other fixed taxes. They are, therefore, not so sensitive to changes in industrial production as are federal revenues. Their increase under Industrial Expansion would not be so marked as that in federal revenues. Even so, with the materially larger national income, state and local revenues would increase. It would be possible to end some of the sales taxes which bear most heavily on those with low incomes, and at the same time to increase the state and local support to schools, public health, hospitals, and other social institutions.

<sup>1</sup> These and the other revenue figures used in this chapter are the revenues for the fiscal years beginning July 1 of the year stated.

<sup>2</sup> Processing taxes, unjust enrichment taxes, and Social Security taxes are excluded from these totals.

At the same time that government revenues were going up, government expenditures for relief and pump-priming would be going down. From 1934 to 1937 these expenditures ran for the Federal Government alone between three and four billion dollars, out of total federal expenditures (excluding the veterans' bonus) of seven to eight billions.<sup>1</sup> In the 1938-39 fiscal year they will again run high. By the time we get up to 100 billion national income, with practically no unemployment, one billion would probably be enough to cover the remaining youth and other federal recovery and relief expenditures still necessary.

The way this might work out can be tabulated roughly as follows:

ESTIMATED FEDERAL RECEIPTS AND FEDERAL EXPENDITURES,  
EXCLUDING SOCIAL SECURITY TAXES AND PAYMENTS

<i>National income</i>	<i>Receipts</i>	<i>Expenditures for present purposes</i>	<i>Deficit (—), or balance (+) available for other purposes</i>
60 billions	5 billions	8 billions	—3 billions
80 “	9 “	7 “	+2 “
100 “	13 “	6 “	+7 “

Instead of the deficit of about three billions at 60 billion income, there would be a surplus of two billions at 80 billion, and of seven billions at 100 billion.<sup>2</sup> This surplus

<sup>1</sup> From tables attached to *Daily Statement of the United States Treasury*, July 15, 1938.

<sup>2</sup> Although national income paid out was 69 billion in 1937, federal revenues in the 1937-38 fiscal year showed less increase over the preceding year than would be expected from this table. That was because of the sharp recession in late 1937 and the first half of 1938, which cut revenues from current taxes. Had economic activity maintained the 69 billion level through 1937 and the first half of 1938, 1937-38 revenues would have been materially higher.

could be used in part to reduce the national debt, and in part to cover some of the social needs which are neglected today. Aid to the states to provide old-age pensions on a much more liberal basis than at present would be an obvious part of such increased expenditures.

Today there are about eight million persons in this country over 65 years old.<sup>1</sup> In addition, there are other groups equally unable to support themselves even if work were available. These include the blind and deafmute,<sup>2</sup> those so handicapped they cannot work, mothers with dependent children, and destitute rural families without resources and incapable of gainful work. Of these, only 1,713,253 aged persons, 39,476 blind persons, and 260,000 families with an average of 2.4 children per family, were receiving state, federal, or local aid in July, 1938.<sup>3</sup> The payments made, however, were small, averaging only \$19 per month for the aged, \$23 per month for the blind, and \$31 per month per family for mothers with dependent children. If we estimate that roughly seven million out of the eight million persons over 65 are wholly dependent on their relatives or on public aid,<sup>4</sup> and add in the other classes unable to support

<sup>1</sup> National Resources Committee, "The Problems of a Changing Population," May, 1938.

<sup>2</sup> The total number of blind and deafmutes was 120,573 at the time of the 1930 Census. Bureau of the Census, "The Blind and Deafmutes in the United States, 1930," Department of Commerce, 1932.

<sup>3</sup> The 642,000 children in families receiving aid to dependent children represent less than half of all the children under 16 with the father or both parents dead. It is estimated there were 1,677,000 such children in 1930. Mortimer Spiegelman, "The Broken Family—Widowhood and Orphanhood," *The Annals of the American Academy of Political and Social Science*, November, 1936, p. 127.

<sup>4</sup> In 1930, one-third of the persons over 65 were "gainfully employed," according to the Census. This included, however, many persons only nominally employed, and actually receiving little income. Today the number would be much larger. See Bureau of the Census, *Population Volume V, "General Report on Occupations,"* Department of Commerce, 1933, p. 114.

themselves, we would probably have about nine to ten million cases in all. Today a total of about three-quarters of a billion dollars a year is being spent in aid to such persons,<sup>1</sup> while another half billion is being added to the old-age reserve account annually. These payments are increasing gradually. Even if all the payments to the old-age reserve account were used for current expenditures, these funds would have to be greatly increased to provide a decent standard of living for all people who are in need for reasons other than unemployment.

The present aid to non-employables will gradually increase as the existing law goes more fully into effect. Plans are already being discussed to make the old-age insurance payments begin earlier than the law provides, and to make them more liberal. Under the existing law it would be many years before the pensions to most of the recipients amounted to as much as \$20 a month, while many would receive only \$10 to \$15.

Under Industrial Expansion far more rapid progress could be made in providing for those unable to work. With the increase in federal receipts and decrease in federal expenditures already shown, much larger federal funds would be available for these and other desirable social purposes, such as greater support to education, health, etc. At the same time, with steadily increasing industrial employment, the old-age taxes could also be drawn on to cover current old-age payments, instead of being placed in

<sup>1</sup> In July, 1938, these payments were running at an annual rate of 395 million dollars a year for old-age pensions and assistance, about 92 million dollars a year for dependent children, about 11 million dollars a year for aid to the blind, and about 445 millions a year for general relief. About half of this last item might be eliminated if there were full employment. Social Security Board, *Social Security Bulletin*, Vol. 1, No. 9, September, 1938, p. 39.

reserve as now. The bread, clothes, shoes, and other things the present workers will need when they become old can not be set aside from present production and stored for a generation. Today when we set aside the money that those goods represent, we do not succeed in storing the physical goods. Instead, by withdrawing money from current expenditure we reduce the national buying power.<sup>1</sup> In the effort to set aside money for the future, we are actually causing less food and clothes and housing to be produced and consumed now. These funds could be better used by paying them out in enlarged old-age payments.

If present federal tax rates were maintained while Industrial Expansion was increasing national production and income, there would be a great increase in federal funds available for social uses. A large proportion of these funds might be so diverted. If they were added to the funds now being spent or placed in reserve, how large payments could be made to the aged and others unable to support themselves?

In its first year, Industrial Expansion might reasonably be expected to raise national income to between 80 and 85 billion dollars. As has been shown, this should produce a

<sup>1</sup> At the present time funds deposited in the Old Age Reserve Account are being used to purchase federal obligations. The money received from old-age taxes is thus being spent by the Treasury. There is no evidence, however, that if these old-age taxes were not being levied and placed in reserve that other federal expenditures would be any lower. The new federal obligations would then be sold to banks instead of to the Old Age Reserve Account. The money now collected as old-age taxes would then remain in the hands of consumers, and their buying power would be correspondingly increased. If the budget were balanced, the purchase of securities for the reserve account would take them out of the hands of banks and other private holders. Again, the funds collected by the taxes would reduce consumption, while the funds disbursed to banks and other holders of federal obligations would only in small proportion reappear in consumption expenditures.



federal surplus of about  $2\frac{1}{2}$  billion dollars. Of this, half a billion dollars might be used for increased federal support to education, public health, and other general social purposes, and two billions be used for aid to the unemployable. (Aid to the unemployed would meanwhile continue, but on the reduced level made possible by increased employment.) Adding this two billion dollars to the  $1\frac{1}{4}$  billion already being extended as aid to such groups, or being placed in the Old Age Reserve Account, gives  $3\frac{1}{4}$  billions. This would be sufficient to make monthly payments averaging \$30 a month to nine million persons, including aged, handicapped, and dependent families. If smaller numbers applied, the average payment could be still larger. Even in its first year, then, Industrial Expansion would put the Federal Government in position to start paying a minimum old-age pension to all dependent persons over 65. In subsequent years the old-age pension could be increased as the national income rose, and the coverage would be extended to provide pensions at a lower rate for those between 60 and 65 years of age.

It would obviously be unwise and unfair for the old-age pensions to be so high as to exceed the average wages of full-time workers. Younger men usually have more responsibilities to meet. But as real income increases and the average wage level is gradually increased, the level of old-age pensions could increase likewise, though on a lower level.<sup>1</sup>

After a few years Industrial Expansion should be able to increase our national income to 100 billion dollars a year and provide jobs for substantially all our potential workers.

<sup>1</sup> In all the figures in this chapter, it is assumed that prices and the cost of living are held at about present average levels. The wages and pensions which could be paid as national production increased would thus represent real increases in buying power.

At that level of production a federal surplus of seven billion dollars would be available, as has been shown, if tax rates were meantime kept unchanged. Perhaps five out of this seven billion might be used for old-age and other payments to unemployables. In addition by that time probably about  $1\frac{3}{4}$  billions additional would be available from Social Security funds and the regular appropriations for such purposes, instead of the  $1\frac{1}{4}$  billions at the present time. This total of  $6\frac{3}{4}$  billion dollars, if applied to payments to 10 million aged or handicapped individuals and mothers with dependent children, would cover average payments of over \$55 per month.

Over the years ahead, the problem of decent incomes and comfort for the aged will become increasingly difficult. Because of the changing composition of our population and the declining death rate, the number of aged will continue to increase much faster than the population as a whole. It has been estimated that by 1950 we will have 11 million persons over 65 years old, and by 1970, 18 million.<sup>1</sup> We will not be able to care for those persons decently unless we use our resources efficiently and to capacity, and unless we intensify technical improvements in every way possible and then make effective use of them. Only some system such as Industrial Expansion will enable us to produce the abundant flood of goods and services that our men, resources, and knowledge are capable of producing. Unless we do produce those goods and services, it will be impossible to enable our increasing number of old folks to live out their lives in decency and comfort.

Increased production, such as provided for through Industrial Expansion, rather than financial sleight of hand, is thus the real road to the goal which the Townsendites

<sup>1</sup> "Problems of a Changing Population," p. 32.

seek. With that goal of a dignified, self-respecting, and happy old age for all workers, no one can quarrel.

## VIII

### *Will Industrial Expansion increase the responsibilities of labor?*

Labor will have equal responsibilities with management in working out the expansion programs. Each Industry Authority will be composed of representatives of labor, management, consumers, and the government administrators. Each interest will have an equal vote. When the first year's expansion program is prepared for the industry, this group will work out the figures for the industry. They will estimate the expansion in production and employment to be made, and the reduction in cost which will come with the larger output. They will work out the reductions in selling price, the increases in wages, and the increases in profits, which will be possible with the larger sales and lowered costs. They will decide whether the wage increases will be in the same proportion at all wage levels, or whether the workers with the smallest pay will be given the biggest boosts. The fight over how much of the gain will go to consumers, how much to labor, and how much to business, will be argued out in these negotiations.

The Industry Authority will also make tentative allocations of the proposed increases among each concern in the industry. How that might be done is discussed in Chapter XII.

Public hearings will then be held. At these hearings the

tentative program for the industry will be presented and discussed. The labor representatives who helped to frame the program will be present to explain the plans from the labor point of view. Similar public hearings will be held in each sizeable concern of the industry, to discuss that concern's share in the industry program, and the proposed wages and working conditions.

The Industry Authority will also work with the central administration to cross-check the program for its industry against the programs for other industries. Where the tentative programs do not fit together properly they will be revised until a satisfactory balance is secured. These revisions will be worked out by negotiation between each Industry Authority and the central administration. The labor representatives will have equal voting power with the other members in arriving at the necessary changes in the tentative programs.

After the programs are approved and go into action, the Industry Authority will see that the program is being properly carried out. The labor representatives will be especially concerned with the faithful performance of the provisions as to employment, hours, and pay. They will be constantly in touch with the workers in each concern. If any concern fails to increase its number of workers as agreed upon, or to follow the hours and wages worked out for the industry, the labor representatives will be informed by the workers. It will then be their duty to see that the difficulties are corrected. If they are not straightened out, the matter will then be put before the whole Industry Authority. If it is not able to secure compliance, it will refer the violation to the government representatives for action. In case refunds to cooperating concerns are used, no concern will be able to qualify for its refund until the

Industry Authority certifies that the concern has carried out its agreement under the industry's expansion program. Similarly, the government's obligation to purchase the unsold production will be conditioned on certification of compliance with the agreed labor conditions.

Once the program for the first year is under way, the industry will start developing the expansion program for the next year. This will be developed in much the same way as the first program, with labor having an equal voice with management at all the successive stages.

The equal recognition of labor and management in the formulation and administration of the programs, will give the representatives of labor new responsibilities and new dignity. The workers in each industry, through their elected representative, will have a recognized and responsible voice in the formulation of the industry's policies with respect to production and prices, as well as to wages and working conditions.

The basic objective of Industrial Expansion is to increase employment, production, and consumers' incomes. The whole program will be directed to the same end that organized labor is seeking, higher incomes and better conditions of work and life for its members. In working out the expansion programs for each industry arguments will arise over how far, how fast, and how much. The arguments will be over how much progress can be made in a given year, not over the direction in which to move. In line with the basic purpose of establishing decent minimum incomes for all workers, wages will generally be pushed up faster for low-paid workers than for those further up the scale. Unions may insist, however, that organized workers be preferred, and may tell low-paid workers that they too must organize and carry their part of the struggle if they

are to share fully in the gains. Workers will be assured that each succeeding year their pay will be raised by successive, though gradual, increases. They will also be assured that the benefits of higher income will not be taken away from them by offsetting increases in living costs. The gains they make in income will be gains in real purchasing power, not fake gains cancelled out by higher prices.

Labor representatives will find themselves fighting on the same side as the representatives of government and consumers. The problem will be to arrive at that rate of steady progress which can be maintained year after year. The gains in the first years will come quickly as jobs are made for those unemployed, and as output goes up rapidly from putting people to work. In later years the gains will be less rapid, as they will depend on the subsequent steady technological advance. As the rate of gain slows down, the struggle over the division of the production may become more severe.

Heretofore, the problem of labor has been to see that workers get their fair share of a limited output. Labor unions have grown up in this tradition of class conflict. They have learned from sad experience that if workers did not insist on getting their full share, employers would get too much, and workers would get too little.

This traditional point of view of labor, that wage negotiations are part of a class struggle, would probably cause some difficulties when Industrial Expansion programs were first worked out. Those programs would depend on seeing that more was produced all around, so that there would be more for everyone. There would be real danger that labor, given its increased power, might try to get too much increase in wages right at the beginning. If the program were put into action at a time when unemployment was heavy

and part time was general, it would be more important to get more men at work and to get them all working full time than it would be to try to raise hourly wages a lot right at the start. Labor might deadlock the whole program by insisting on too great wage increases right away while production was still low. In this, as in other phases of the program, widespread public discussion of the issues involved would be needed to prevent undue demands from any one group, and to maintain support for the programs as a whole.

Labor has often been accused in the past of trying to increase employment by restricting output. That point of view is the natural result of an industrial situation of heavy unemployment and no sure jobs for those displaced by progress. The current attempt to pass a federal law limiting the length of freight trains is one example. Many other efforts of labor to hold down on output in order to increase employment might be cited. Such efforts occur both among organized and unorganized workers.<sup>1</sup> This traditional attitude of labor might cause conflicts in the formulation of the early expansion programs. It would be necessary for labor to get the viewpoint that under Industrial Expansion future increases in wages depended in large part on future increases in output per worker. To the extent that the discussion and negotiations of the expansion programs helped workers to see that clearly, better labor cooperation in moving forward to greater total output could be secured.

Through the public hearings on the expansion program, the individual workers would have the opportunity to hear and participate first hand in a discussion with those who

<sup>1</sup> See Stanley B. Mathewson, "Restriction of Output Among Unorganized Workers," The Viking Press, 1931.

were helping to frame the program. This first-hand discussion of the pros and cons should help to change the attitude of labor already referred to. If the individual workers understood fully how the programs for larger production and employment were being developed, and the way in which these would provide for gradual and steady increases in wage rates, they would be less inclined to insist on impossibly large increases in wage rates right at the start.

Industrial Expansion would not do away with the need for labor organization but would alter its function. Labor leaders would have to concern themselves not only with labor's battles for wages and working conditions, but also with industrial policies with regard to production, prices, and profits. The leaders of labor would have to become economic statesmen as well as effective organizers and powerful leaders. Workers would gradually learn to see themselves as part of the whole industrial picture, rather than merely as opponents of their employers. Employers and labor would have a positive way to work together for increased production and more prosperity for both groups, rather than feeling that the loss of one party was the gain of the others. Industrial Expansion would bring new duties, new responsibilities and new opportunities to the rank and file of labor.

## IX

*Do we have to discover a new industry to put the unemployed to work?*

New jobs need not wait on new super-luxuries, like television sets and air-conditioned private monoplanes. Giv-



ing work and reasonable minimum incomes to the lower half of our population will open up tremendous new markets to be satisfied. They do not demand new luxuries, but merely staples. There is plenty of work for all our idle people for a long time, just making the ordinary everyday things all around us.

Millions and millions of American workingmen have never enjoyed just the simple creature comforts that most middle-class families take for granted. There are large groups of these underprivileged families in every large city. They are hard working, earnest people, trying their best to get along. They've never had simple comfortable homes, with enough space for decency and some privacy. In typical American cities, 8 percent of the families have homes completely without running water, and 33 percent are without running hot water. Almost one-quarter (23 percent) have no bathrooms. Ten percent use oil lamps for lighting. One-sixth have no refrigeration, and one-sixth have no indoor water closets. Over one-quarter (27 percent) have neither gas nor electricity for cooking, and must use coal or wood ranges or oil stoves.<sup>1</sup>

Many American families lack glass in the windows to keep the drafts out in winter, and screens to keep the bugs out in summer. Many lack a tight roof to keep the rain out and the heat in. They've never had decent house furnishings. They lack not only beds with springs and mattresses, but simple rugs on the floors, sheets and blankets for the beds, tables and desks to eat and write on, chairs to sit on, and dishes and linen for the table. Their families haven't enough clothing to be clean and comfortable at work, and

<sup>1</sup> These data are for 64 cities in 1934. See "Real Property Inventory, 1934. Summary and Sixty-four Cities Combined," U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce, 1934.

to dress up occasionally for church or pleasure. They haven't the right kind of food to live and grow on. They need vegetables, fruit, eggs, milk and other protective vitamin-rich foods necessary for youngsters to build good bone and muscle, and for grownups to keep healthy. And then besides these rudiments of shelter, clothing, and food, millions and millions of them have never had a real chance at movies or trips or ball games or doctors' care or newspapers or books, or any education except the most meager.

As the outlet for farm products improves, and farm incomes rise, farmers too can vastly increase their present demands. In the South alone, nearly two million tenant families with ten million people in them, live in cabins where running water and bathrooms are practically unknown. They frequently have rough wooden doors for windows, with a creaking metal bed the main article of furniture. Often their clothes are of flour sacks with overalls for dress-up. They and their children work hard and long, for weeks and months on end, at cotton cropping and cotton picking, backbreaking tasks. The schools open late in the fall and close early in the spring so as to leave plenty of time for the children to work on the crops. The two or three hundred dollars cash the average family takes in in a year barely covers the poor food and clothing they keep alive on.

The cities show housing almost equally bad. In every city of the land there are endless blocks of dreary tenements and slums or down-at-the-heel residences in sections we mostly avoid or hurry through. If we should go in, we would find families huddled together, sleeping four or more to a room, with little furniture or clothing and less heat, barely keeping alive on scanty relief payments and free surplus foods. In 1935, in a city like Chicago, one-tenth

of the families<sup>1</sup> lived this way, with less than \$500 a year to spend. They kept going only by using up past savings or going into debt, to the tune of more than \$200 per family, on the average. In New York City, one-sixth of the new generation is growing up in families like this, on relief.<sup>2</sup> The recent study by the Public Health Service<sup>3</sup> showed that such families, ill-housed, under-fed, and poorly clothed, have the least resistance to disease. They are sick 57 percent more often than well-to-do families. They stay sick 63 percent longer. One in every 20 family heads was unable to seek work because of disability, as compared with one in 250 family heads from those relatively plutocratic families with incomes of \$3,000 a year or more. These latter are better prepared to resist sickness and are better cared for when they are sick.

Invention and technical progress will not stop. We will continue to develop new things to make and new wants to satisfy. We will continue to find ways of making the old things better. Radio sets may give way to television sets. Autos may give way to airplanes or helicopters. Gasoline will run out and be replaced by liquified coal, alcohol, wood, gas, or other new explosives. Synthetic chemicals may replace cod-liver oil and even milk. The possible standard of living and enjoyment will continue to rise in the future as it has in the past.

But along with a continuing rise in the standard of living for the fortunate few must go a sustained effort to bring

<sup>1</sup> The precise figure was 95 percent. Preliminary report on "Incomes Received and Rents Paid by Chicago Families," Urban Study of Consumer Purchases, U. S. Dept. of Labor, February, 1937.

<sup>2</sup> "National Health Survey, 1935-36, Preliminary Report C," U. S. Public Health Service, 1938.

<sup>3</sup> See "Preliminary Report, Bulletin No. 2. The National Health Survey: 1935-36," U. S. Public Health Service, 1938.

the dispossessed classes up to a minimum standard of comfort. The great mass of our population now lives far below the standard of living that our present knowledge makes possible. They cannot even share in the things they themselves produce. The cotton picker and the southern textile hand dress in shabby clothes and sleep without sheets. The building mechanic or laborer lives in old rundown shacks or city slums. The children of many dairy farmers have only margarine and skim milk. The automobile workman cannot afford the shiny new cars he helps build. No new inventions are necessary to let these people share in the consumption of that which they themselves help produce.

No, there is no need of super-radios or ever more luxurious yachts and airplanes to give work to the outcasts from our present civilization. We already know all about how to make the things they need. We already know all about how to train nurses and doctors to care for them, teachers to educate them, foremen to rehabilitate and direct them, and storekeepers, farmers and factory workers to produce what they need. The simplest food, shelter, clothing, and health and recreation; that is all they ask. What we haven't yet discovered is how to keep them at work to produce the familiar things they need, and how to provide them the income to consume and buy what they help produce. Doing just that is one of the aims of the Industrial Expansion proposal.

## X

*Will continued technological advance make it  
impossible to have jobs for all?*

When we see a new continuous-strip rolling mill turning out with the labor of 25 men, as much steel as 400 to 500 men used to turn out, or when we see an "electric eye" rejecting imperfect parts as fast as twenty inspectors could do the job, and even more accurately, we are very likely to say: "How can new jobs ever catch up with such machines? There'll never be work for the men they displace!"

Men have felt the same way many times in the past. When spinning and weaving machines were first introduced, the displaced weavers tried to burn them down or outlaw them. When railroads began to come in, canal boat operators and stagecoach workers lost their jobs in great numbers. The grain harvester, and then the combine, displaced a whole army of field hands that used to follow the wheat harvest north. In each of these cases tens or even hundreds of thousands of workers were displaced. In each case they or their children were eventually reabsorbed in other expanding industries.

Today the job of industrial reabsorption is slower. It often seems that technological displacement is throwing men out of jobs faster than expansion elsewhere is absorbing them. There are three reasons for this slowing down of the rate of reabsorption:

First, corporations control price policy today so that

new processes and lower production costs do not mean lower prices or higher wages as inevitably as they did when competition was more effective. If competition did work effectively, so that prices were reduced as fast as labor efficiency was increased, consumption would be stimulated. Consumers would have more money left to buy other products. Demands both for the immediate product and other products would increase, and new jobs would be created. But under corporate price control, the lower production costs which result from technical advances do not necessarily result either in higher wages or in lowered prices. On the contrary, a large part of such gains is frequently retained as larger profits, larger surpluses, and higher dividends. The decline of competition has disrupted the competitive mechanism by which the benefits of increased efficiency and fewer men at work should be passed on to consumers as lower prices, and to workers as higher wages. The decline of competition thus tends to keep improved processes from appearing again as increased demand and more jobs.

Second, our economy is passing its stage of physical expansion. We have no new continent to exploit, develop, and people. As we settled the continent, every new road we opened, every new railroad we built, opened up new territories. These in turn demanded houses, grain elevators, factories, stores, streets, to develop and exploit their resources. The question then was not that of today, where can we find use for superabundant capital funds, but rather, where could we find the capital to develop the untapped resources on every hand? Capital was invested as rapidly as it could be secured, and the expanding capital investment carried employment and consumption along behind it. It did not matter whether the workers' buying

power matched the current production or not, for expanding investment would soon make new jobs for workers and give them more buying power.

Today, on the contrary, the new inventions, such as radio, airplanes and air-conditioning, are more and more devices which can increase the consumer's welfare, but which do not of themselves open up great new fields of capital expansion. Whereas in the past capital expansion preceded business activity, now it takes rising business activity to produce capital expansion.<sup>1</sup> Today, unless the consumers' buying power can keep pace with current production, everything lags. Every effort must therefore be centered on keeping the buying power of workers and other consumers large enough so that they themselves can buy and enjoy the things they produce. If this cannot be done, consumer buying will lag behind production. Then capital investment shrinks too, and the whole industrial machine goes into a decline.

Third, our rate of population growth has slowed down. During the last century, our population was increasing by about one-third each decade. Early this century the rate fell to about one-fifth.<sup>2</sup> Now it has dropped to about a one-sixteenth increase each decade. By 1950, our population will practically have ceased to grow. This decline in population growth has a number of different results. Directly, it slows down industrial expansion by reducing the number of new mouths to be fed, new backs to be clothed, new families to be housed. Although internal migration may still continue the growth of many cities for a long time ahead, construction for the steady general expansion of

<sup>1</sup> See Gerhard Colm & Fritz Lehmann, "Economic Consequences of Recent American Tax Policy," Supplement 1, *Social Research*, 1938, pp.

3-9

<sup>2</sup> See Table 2 at end of this book for data on population.

streets, sewers, subdivisions, pavements, schools, in all of our towns and cities, is rapidly becoming less important.

An equally significant effect of the decline in population growth is the increased difficulty it creates in readjusting to technological changes. In a rapidly growing population, it does not make so much difference if one occupation is becoming relatively less important, for the general population growth may outstrip the rate of decline in that occupation's importance. All the adjustment can be made by changes in the choice of occupation by the younger generation. It was far less of a shock for the son of a stagecoach driver to grow up to become a brakeman or fireman for the new-fangled railway than it was for a hostler or coachman himself to have to become accustomed to the ways of the iron horse. In 1910, very few of the old cabbies became taxicab drivers. They largely left to their children the job of adjusting themselves to the new machine. But when population is stationary, adjustment to technological changes cannot be made by such relatively easy shifts by the oncoming generation. The glassblowers displaced by machines need new employment today. The miners displaced by mechanical mining, by other sources of power and by increased efficiency in the use of coal, still haunt the dead coal towns, waiting for their accustomed work to do.

Reabsorption of the technologically unemployed today is thus no longer an automatic process. Industrial Expansion, by tapping the markets for goods needed by our underprivileged, would greatly simplify this problem, for it would provide new jobs for many in the expanding industries. A large proportion of the men without work have lost their skill and are not now competent to be reemployed. As already indicated, conscious retraining programs on a



wide scale would be necessary to help prepare them to return to work, and to help fit them back into jobs.<sup>1</sup> The question would still remain, though, whether technological displacement would still outrun reabsorption, even if planned Industrial Expansion programs were being followed in all major industries.

So far as the demand for the products of industry is concerned, consumers' needs are almost insatiable. Every successful man who has moved up progressively from position to position has had the experience that family standards of living rise equally as fast as income. At \$5,000 income a year, it proves no easier to balance the family budget than it was when he was making \$2,000 or \$3,000. If he is one of the relatively few fortunate ones who rises to a \$10,000 or even \$15,000 income, he still finds it difficult to hold the family expenditures inside his income. (Even in prosperous 1929 only 1.2 percent of all families had incomes above this last figure.<sup>2</sup>) Of course, for the very few whose incomes rise to astronomical figures, the pressure of personal expenditures is not so great. Even after paying over a large slice of their million-dollar incomes in income and other taxes, they still have ample funds left over for expanding their investments, creating trusts and other charitable and tax-free foundations, and gifts. But it is not with such incomes that ordinary mortals are concerned.

Even if Industrial Expansion were sufficiently successful so that it did eventually push minimum family incomes up to \$2,500, that would still provide only a very moderate standard of living. As previously poor families adjusted themselves to that modest standard, and had some taste of

<sup>1</sup> See Chapter VI for the definite retraining Industrial Expansion will provide

<sup>2</sup> "America's Capacity to Consume," The Brookings Institution, 1934, p. 228.

the delights of recreation and travel, new demands would appear. After a time \$3,500 instead of \$2,500 would seem a more reasonable and practical minimum. The gradual increase in national production and in output per worker would make that attainable for most families. There would be effective demand for all that could be produced, even though each man kept on producing more and more.

Within the limits of available resources, there seems little danger that the output of things will outrun the desires of people for those things.

Besides producing more goods, an increasing efficiency of labor can be taken up in other ways. More time spent in school is one of these. The age of leaving school is constantly tending upward. Today most families feel that a high school education is essential for every child. The numbers in colleges are constantly increasing. College education is valuable not only because it teaches boys and girls how to get along better in the world as producers, but also because it can teach them how to live more deeply and more understandingly. We have always placed too much emphasis on producing, and too little on knowing how to live. We make production an end in itself, rather than a means to more gracious and more satisfying living. We may be moving toward a time when college education for everyone is taken for granted, as high school training is in our more prosperous sections today. Such training should help us to make better and more satisfying use of the increased time for leisure, and perhaps of an earlier age of retirement, both of which continued technological advance will make possible.

Too much of everything is almost a physical impossibility. This is evident from the whimsical definition "There will be an absolute overproduction of all goods and serv-

ices when each man earns 10 percent more than his wife can spend."

A second way in which increasing efficiency of labor can be used is in shortening the working time. Leisure has a value to men, as well as goods and services. Personally, I believe we should not reduce working time below a 40-hour 5-day week, and 11 months of work and 1 month vacation, until total output has increased far above present levels. I believe that not until levels of production and consumption are raised to far above what they now are, would most men voluntarily choose more leisure rather than more income. Later on as higher efficiency was needed, still shorter hours could be adopted.

An effective system of industry-wide planning, vocational retraining of those thrown out of work by machines, later entry on work and earlier retirement, and shorter hours, will help keep pace with increasing efficiency. But there might still be a limit to how fast men can be shifted from one job to another, to how fast the economy as a whole can make effective use of all the techniques that may be discovered. If Industrial Expansion permitted all new technical improvements to be put into use as rapidly as they were discovered, they might throw men out of work faster than new jobs could be planned and created for them. If such a situation should develop the rate of introduction of new techniques might need to be brought under the industry plans, as well as the production, employment, and price and wage policies. The rate at which new discoveries and improvements were introduced would thus be limited to what the business and industrial world could absorb without breakdown. A somewhat slower rate of technical progress would be consciously selected as preferable to such

increasing dislocations of industry as would produce a steadily rising unemployment.

Planning the rate at which new inventions were put into use would involve unknown difficulties. Planning Industrial Expansion alone will be difficult enough, but at least the kind of facts needed for it are known. It will involve facts such as production, consumption, new materials, labor, prices, wages, for each of the many products involved, with the existing equipment and present methods of production. Further particulars will be needed, as to the relation of the rate of operation to the labor needed, and to overhead and other costs. About all that has been done on the progress of technology, however, has been either to study the effect of particular important inventions, or to fit long-time trends to the increase in output per worker. Actually planning the rate of technological adoption would involve far more detailed and specific investigations, by methods which have not yet been worked out. In view of these difficulties in the way, not until Industrial Expansion programs had been operating for some time could the planning begin to consider this phase of the problem.

In the past many have believed that the argument "It will slow down technical progress" was a final and conclusive demonstration of the un wisdom of any proposed step. But when technical progress goes at such a rate that the existing economy cannot adjust to it, it fails to be useful. Instead of producing a general rise in the standard of living, it depresses an increasing sector of the population to outcasts, with no participation even in the previous average standard of living of workers. A system that raises the standard of the fortunate portion of the population still employed, while degrading a constantly increasing propor-

tion to social and economic outcasts, is not true progress. Planned Industrial Expansion will, I believe, make it possible for industry to adjust itself to a more rapid rate of technical progress than it has been able to stand in the past. Even if finally some restriction has to be placed on the rate of technical progress, in the interest of maintaining substantially full employment and rising standards of living for all workers, that will be no shortcoming. It will be better to carry all our people forward to higher standards at a moderate but continuous rate, than to continue to raise the welfare of the "have's" at a dizzy rate, while constantly increasing the proportion and the desperation of the "have-nots."

Technological improvement will continue to be a serious problem even with Industrial Expansion, and one that will require study and planning. It should not be an insoluble one.



PART THREE  
INDUSTRY  
AND BUSINESS



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PART III

INDUSTRY AND BUSINESS

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XI

*How much will each industry expand?*

If Industrial Expansion is put into operation at a time of economic depression, its first year will provide for a big over-all increase in production and employment. The increase will be as big as the major industries can safely take care of in one year. The second year's program will provide for a further increase, perhaps not quite so big a jump. The next increase, for the third year, will probably take production up pretty near to the existing capacity in most industries, and will about finish providing jobs for the employables among those now unemployed. Each year's program after that will provide a further increase, but it will not be so large as the increases for the first few years. New factories will have to be built, and new methods of saving labor will have to be introduced. Once all our workers are fully employed, production can increase only as our population grows or as we make each day's labor produce more. That will go slower than just putting our idle men and idle machines back to work in the initial programs.

From the beginning the rate of increase in each industry



will have to be adjusted to the prospective market for the products of that industry. If all industries expanded by the same percentage, there would be too much of some things and too little of others. To work properly, the percent of expansion should be different in each industry. How much should each industry expand? How can that be determined?

Most business concerns or trade associations have studied the factors which affect the demand for their products. If industrial activity and national income increase 10 percent in a year, they know about how much that will mean in increased markets for steel, or motor cars, or furniture, or tires, or lumber. If they knew how much increase in national income they could count on, they could tell for themselves how much increase that would mean in demand for their products. So the first step in figuring out how much each industry will expand the first year will be to decide how much the over-all increase in national income should be. The central Industrial Expansion Administration might reach this decision, after consulting the representative agencies for the several major industries. If we were starting today, for example, it might be decided to aim at a national income of 80 billion dollars in 1939. That would be 10 billion dollars, or about 14 percent, larger than the 70 billion dollar income of 1937.

Each major industry would then figure out how much more product it could sell with a 14 percent increase in the national income. This estimate would be worked out by each Industry Authority after investigation and discussion. In industries where rapid technical progress or full-volume operation made lower prices possible under the program, the effect of those reduced prices in further stimulating sales would also be allowed for in estimating the probable

market. After each industry had worked out its figures, they would be checked one against another. The increase in production under the cement program, for example, would be checked against the increases worked out for housing construction, road building, and factory construction. The increase in each kind of goods to be sold to consumers would also be checked against what consumers would probably buy with their increased income.<sup>1</sup> When these cross-checks showed gaps or inconsistencies between the different programs, modifications would have to be made in the preliminary industry estimates until they all fitted together, and added up to the proposed increase in national production and in national income.

Some idea of the extent to which the rate of expansion might vary as between different industries is given by their previous changes with high or low industrial activity. Studies of these past changes indicate that with an increase in national income from 70 billion to 80 billion dollars, a 14 percent rise, the rate of increase in different selected industries would vary widely. Tentative estimates of the increase likely to arise in some different industries are as follows: <sup>2</sup>

*Foodstuffs:*

Flour milling 1.5 percent, meats 6 percent, bakery products 7 percent, tobacco manufacture 8 percent, canning and preserving fruits and vegetables 12 percent, candy 14 percent.

*Clothing:*

Boots and shoes 14 percent, silk and rayon goods 18 percent.

<sup>1</sup> How this estimate of what consumers would buy would be worked out is discussed in the next chapter.

<sup>2</sup> Data from Gardiner C. Means, "Patterns of Resource Use," Technical Report, National Resources Committee, 1938.

*Furnishings:*

Furniture 25 to 30 percent, pottery 31 percent.

*Other consumer goods:*

Tires 16 percent, automobiles 45 percent.

*Building materials:*

Cement 16 percent, paint and varnish 22 percent, lumber 35 percent.

*Other materials:*

Anthracite coal 8 percent, bituminous coal 17 percent, copper 54 percent, iron and steel 39 percent.

*Machinery:*

Electrical machinery 41 percent.

*Railroad freight* 23 percent.

These changes in individual industries are based upon the records of how each industry has expanded during boom periods in the past. In general, we have expanded capital goods too fast during such past periods. In a properly balanced expansion there would be such a balance between capital goods and consumer goods as could be maintained without subsequent sharp contractions in capital goods production. Such a planned expansion might therefore show somewhat larger increases in food, clothing, furnishings, and other products for consumers' use, and somewhat smaller increases in capital goods, than is shown in the data above. Even so, these data suggest how very different the rate of expansion might be for different industries.

The increased efficiency under Industrial Expansion programs will make it possible to reduce prices in some industries, as was indicated in Chapter IV. In other industries such as textiles, where higher output per worker cannot be readily obtained, it may prove impossible to raise wages to the new higher levels without increasing prices. These

price changes will have to be adjusted so that as a whole the decreases balance off the increases, and so that the average cost of living is not increased

In estimating how much each industry will expand, it would be necessary to take account not only of the proposed increase in the national buying power but also of the effect of changes in prices on the demands for each product. Industries that can reduce their selling price, such possibly as steel, cement, and automobiles, will be able, as a result, to get a somewhat larger increase in sales than they could otherwise count on. Industries where it is found necessary to increase prices will have to discount somewhat the expansion in sales that they might otherwise be able to receive. The figures just shown have not been adjusted to take account of this phase of the problem.

When the first Industrial Expansion programs are undertaken data will not be available to work out in advance all the interrelations between the different industry programs. Instead, the early programs will have to be based upon the results of past experience so far as it can be measured and made available. For example, in the railroads past operating records are available as a statistical base. Analysis of these records will show how much increase there is likely to be in freight and passenger traffic to be carried, with an increase of 14 percent in national production and income. They will show how much more coal will be needed, and how many more men will have to be employed, to handle the increased traffic. They will also show how many engines and freight cars are in bad condition, and how many miles of roadbed will have to be reconditioned to handle the increased traffic. From these data it will be possible to estimate the quantities of locomotives, engines, cars, rails, spikes, and ties which the railroads would need to purchase

during the first year of expansion.

Besides the immediate requirements for reconditioning plant and expanding capacity where necessary to eliminate bottlenecks, the expansion programs will include long-time plans for the increase of operating equipment to provide for the further increase of production in future years. These might be left out of the first year's program, until increasing business and profits proved to business that it could afford to expand its investment to take care of still greater increases in production under subsequent programs. For these subsequent years the railroad program would also show the purchases it would make from the railroad equipment industries each year of streamlined passenger trains, new locomotives and cars, and other equipment, and the steel, cement, wire, and electrical equipment it would need in expanding its other facilities.<sup>1</sup>

The estimates of increased traffic and increased purchases by the railroads will need to be worked out not only for the country as a whole, but also for the railroads in each geographical region, so that the increase in production can be balanced as well as possible with the increases in demand in that area. This would be especially important for heavy products like coal and cement, so as to reduce the hauling expenses to as little as possible. The records of each major railroad would be used in this connection to show the section of the country from which it usually purchased its coal, cement, and steel. The expansions in future demands would presumably follow the pattern of these previous purchases, at least under these first few programs. In some cases coal or steel may now be transported uneconomically long distances, as a result of agreements between companies to buy

<sup>1</sup> See Chapter XIII for a discussion of one way the details of plant expansion might be planned.

each other's products—"You scratch my back and I'll scratch yours!" As the market widened and each concern found ready sale for all it was producing, the shortage of orders which has led to the development of these reciprocal purchasing agreements or understandings would be removed. Further business would develop along more economical lines.

It will obviously be a tremendous job to work out estimates of this sort for each industry covered by the program. In addition, estimates will also have to be worked out of requirements for the industries not in the program. Their activities too will increase as a result of the expansion in business activity as a whole. Prospective demands of publishers for paper and machinery, of retail and wholesale selling agencies for supplies of all sorts, and of miscellaneous small manufacturing industries for supplies to meet their increased demands, will all have to be estimated as well as they can.

In the process of cross-checking the preliminary expansion plans of each industry, the estimated requirements for major products of other industries will be brought together and summarized. The iron and steel industry, for example, will be concerned with the prospective increase in purchases of structural steel for factories, office buildings, and public buildings; of steel sheets for automobiles, railroad equipment, and similar uses; of special steels for the machinery and tool industry; of steel ingots and pig iron for many miscellaneous uses; and so on for other products. Adding up the estimates of all these other industries that use steel, the steel industry will be able to compare these estimates of how much more iron and steel they will want to buy with its own figures on how much more steel it thinks it can sell. The Industry Authority of the steel industry

will then check its own program with the Authorities for each of these other industries, find the reasons for the discrepancies, and work out whatever modifications in each program are needed to bring them into reasonable harmony with one another.

Even though no expansion programs are prepared for wholesale and retail trade, their cooperation will be sought in planning the prospective expansion in the production of goods for sale to consumers. The great merchandising organizations such as the mail-order houses, the grocery and shoe chains, the cooperative buying organizations of independent stores, the drug chains, the 5 and 10-cent stores, and the department stores, all have records which show very clearly the relation between changes in national income and changes in consumers' demands. They will be asked to estimate how much the increase of 14 percent in national income will mean in increased sales of the products they handle. Even though selling is not brought within the planned area, it can thus aid in making its knowledge and records available to help see that the production programs are soundly and properly drawn.

The process of cross-checking the programs between the different industries, and revising them to make them consistent, could not be carried out in full detail while the first year's program was being developed. As programs are developed for succeeding years, the process will be carried further and further, insuring increasing effectiveness in the programs, and fewer emergency changes after each year's programs are under way.

The degree of expansion for each industry can thus be based on two estimates. The first of these will be the industry's own estimate of how much the market for its product will expand. The second will be the estimate of the

industries that use or sell its product as to how much additional supplies they will need. From these two sources of information, checking one another, it will be possible to draw the plans for the expansion in each industry's operations in such a way that each industry will produce very closely in line with what the expanding market will be ready to take of its particular products.

## XII

### *Can production quotas be divided between competing business concerns?*

After expansion programs are drawn up for any industry the problem will still remain of splitting up the planned production among the concerns in the industry. With a 14 percent increase in national income under the first year's program (to bring it to an 80 billion total) the shoe industry's program might call for a 15 percent increase in shoe production. How can that increase in production be distributed between the different shoe manufacturing concerns?

The method of allocation will be left to each industry authority to work out. The way of doing it may be different in one industry from what it will be in another. The simplest way to distribute the quotas of increased output would be to prorate them among all the shoe concerns either in proportion to their current production or in proportion to their average sales during the past two or three years. Some industries may prefer to base the allocation on existing capacity, excluding obsolete machinery. Some



concerns which are already operating close to their capacity might have to build a new factory to use the larger quota, so may prefer not to increase production. In that case their share of the increase would be distributed among the remaining firms.

After the industry authority has assigned the increase in production that each shoe company is expected to make another difficulty will arise. What is to be done if some company can't sell all of the shoes it has agreed to produce, and if another company has orders for more than its allotted production?

It is a serious question whether every shoe concern should be held exactly to a predetermined quota. To do that would mean that no new concern could ever get started in the shoe business. It would also mean that if one concern was more efficient than the others, and produced a better shoe for less money, there would be no way it could go ahead and grow. The use of a rigid quota system might stifle all competition between concerns and prevent the more efficient and progressive ones from forging ahead. That would be a very unfortunate result, and would tend to slow down economic progress.

The quota system can be modified to make it more flexible, and that would probably be the thing to do. Instead of giving each shoe company a flat quota of 115 percent of its past production, it could be given a variable quota with an upper and lower limit. In this industry a 10 point leeway above and below might be enough. Each shoe concern's quota then would be not less than 105 percent nor more than 125 percent of its previous production. Each concern will be guaranteed a market for its production up to 105 percent. If it sells less than that much, the government will buy the surplus. No concern shall sell more than 125 per-

cent until all other concerns in the industry have sold up to their 105 percent.

Under this flexible system progressive concerns will have a chance to get ahead. Likewise, unprogressive and high-cost concerns will gradually become less important. When the program for the second year is set up, the quotas will be based on how much each concern sold on the open market, not counting the quantities the government bought under its guarantee. If the shoe program for the second year calls for a further 25 percent increase, a shoe concern that sold 125 percent the first year will be assigned a quota of 125 plus 25 percent of 125, or 156 the second year. Then the 10 point range would make its final quota 146 to 166 percent. A concern that sold only 80 percent on the open market, will get only 90 to 110 percent. Each successive year under the program, the progressive and growing concerns will get a bigger quota. While they may not grow so fast as they would under unrestricted competition, neither would they suffer from restricted output following too rapid expansion. They will be benefiting all the time from the continuous expansion in their market produced by the nation-wide industry expansion programs. The progressive firms will thus be coming to the top and the inefficient high-cost firms will be dropping further behind, just as they have done in the past. In this way, quotas and industrial expansion programs can be used to guide expanding production, without rigidly freezing industrial progress in the unchanging mold of past size.

New concerns would get started in the same way that new farmers get started under A.A.A. In each industry covered by an expansion program, a portion of the total would be reserved for new concerns. This might be 2 to 5 percent of the total quota. This would be shared among

the new concerns wishing to enter the industry. After that first year, they would have a chance to increase their quota the same as would concerns already established.

If all concerns sell at exactly the same prices, it will be difficult for a progressive and efficient concern to capture an increasing share of the total business. Accordingly, some margin will be left for price competition as well. The program for the industry will establish the maximum price for the year for each grade of shoes, which each cooperating concern agrees not to exceed. At the same time the government, under its underwriting program, agrees to buy any unsold product up to the minimum quota for each concern at 90 percent of the agreed maximum price. Price competition would be permitted between these two limits. Any low-cost concern which wished to increase its share of the business by cutting its price from 100 percent of the maximum price to 98 percent would be free to do so, provided it made the cut openly and available to all purchasers. There would thus be a certain flexibility in prices as well as in quotas, yet enough firmness to insure profits to every efficient concern. But no attempt would be made to keep every high-cost inefficient concern in operation, or to insure it profits regardless of efficiency. Bankruptcy would still be needed to keep the industrial machine vigorous, healthful, and competitive.

Industries processing products subject to rapid changes in raw material price, such as meats, vegetables, or fruits, would present a special problem. Here the maximum and guaranteed prices might be stated as margins above raw material costs rather than as absolute amounts, or else as prices subject to change whenever the changes in raw materials exceeded a given amount.

Some businessmen will fear that the industry authorities,

or even the Industrial Expansion Administration itself, might fall into the control of groups that will use them for their own business or political advantage. If this should occur the basis of allocating quotas to individual concerns might be so manipulated as to favor the friends of the groups in power. To guard against any such possibility of favoritism, definite arrangements should be provided in the basic law for aggrieved concerns to appeal to the courts. On such appeals the courts should have the power to review the method of allocating quotas adopted for the industry, and the method of establishing bases for each individual concern, and to see that the requirements of impartiality and fair treatment of big and little concerns alike were equitably carried out. Also, the central administration should be set up on a permanent civil service basis, with political influences on appointments, personnel, or policies, completely barred. Insistence on full civil service status in several of the recently-created federal agencies, notably the Farm Credit Administration, the Social Security Board, and the Wage and Hour Administration, has aided in keeping them free of any suspicion of political bias. If Industrial Expansion is to succeed, it will be essential that it too be administered from the start with but one objective—the national welfare.

Despite the difficulties of allocating quotas, the practicality of quota schemes is shown by the extent to which they have already been developed. Some industries use voluntary quota schemes even more rigid than that outlined above. For example, in one region of the country the engineering business was in a very bad way. There wasn't enough business to go around among the firms that put up big factory buildings and other heavy engineering construction. Competition for jobs was too keen, and bid

prices were driven down until no concern was making money. All the engineering concerns in that region got together voluntarily, and established a trade association to allocate the business among them. The officers of the trade association studied the past business of each firm, and notified each one what percentage of the total business in the region it was entitled to. Each concern knew its own percentage, but didn't know the percentage for any one of its competitors. Then as the season went forward, the trade association office received reports from each member as to how much business it had booked. When reports from one concern began to show that it was getting more than its allotted share of the total business, the association officials would notify it to bid high on the new jobs, so it wouldn't get awarded any more contracts until the others had gotten their share. Or if a concern was getting below its percentage of the business, it would be notified to bid low on the new contracts until it got its share. In this way the available work was evenly distributed among the firms, and bid prices were held up to a level where all were making profits in spite of the small amount of work. Of course, the whole arrangement was completely contrary to the federal anti-trust laws, and would have been subject to prosecution if it had been in interstate commerce and if conspiracy could have been proved. Illegal or not, though, it worked.

The example just cited is not the only one. Repeatedly under the N.R.A. codes, similar allocation plans have been put into operation by businessmen. No doubt many other apportioning schemes similar to the one described are in operation now, but are kept secret because of the antitrust acts. Businessmen have not hesitated to use quota schemes to parcel out among themselves a limited amount of total business. Under Industrial Expansion they will parcel out

among themselves the increasing business that the programs of industry expansion will provide. They have shown they can use quotas to scrape along with an unsatisfactory volume of business. They should be both ready and willing to use more flexible quotas to divide up the expanding and booming business that planned Industrial Expansion will produce and insure.

## XIII

*How will capital expansion be provided for?*

Our highly industrialized society depends very largely upon machines. Our ability to produce depends not only upon men who know the processes of production, but upon placing in their hands or under their direction the right machinery for them to operate. In the average American manufacturing plant, about \$5,000 is invested in machinery, equipment, and other capital for every man employed. If we are to provide work for increasing numbers of men, we must provide increased equipment for them to operate.

Our great dependence upon machinery makes our society an especially unstable one. The bread we eat and the clothes we wear must be made about as we need them, so the level of activity in such consumer goods industries stays pretty stable in good times and in bad. But when bad times come businessmen are very unlikely to buy new machinery or equipment. When their plants are operating way below capacity they not only cease expanding their equipment, but also economize on repair of existing equipment and let depreciation reserves pile up unspent. As a result all the

industries that contribute to the production of capital goods suffer large and sudden decreases in demand in times of depression. These include steel, cement, lumber, machinery and many others. In times of prosperity nearly half of all our production is concentrated in such industries. In times of depression that portion of production disappears almost entirely. It is in large part this large and increasing importance of the capital goods industries in our economy, and the exceptional instability that these industries show as we now operate, that has produced such extreme fluctuations in business activity during the past 20 years. Programs for planned expansion in industrial activity would not work unless they provided for steady expansion in capital goods as well as in consumer goods.

In the past, expansion of industrial equipment has been highly variable, far exceeding average expansion in good years, and falling far below average in bad. Instances from individual industries, such as locomotives, have already been cited. The aggregate expenditure of manufacturing corporations for new capital varied widely even before the 1929 depression. It fell to below two billion dollars in 1921, and rose to as high as four billion in 1929. Railroads and electrical utilities showed even wider swings in the pre-depression decade. New capital expenditure of the rails varied between 400 millions and nearly 1100 millions, and of the electric utilities from under 300 millions to over 850 millions. After 1929, all three fell to much lower levels.<sup>1</sup>

The Industrial Expansion programs would aim to even out this production of new capital as much as possible. Instead of putting in a great deal of new equipment some years, and very little in others, the programs would aim at installing each year about the average amount of new

<sup>1</sup> See Table 3 end of this book.

equipment needed to care for future growth and expansion.

New equipment may serve for 5, 10, or 20 years into the future. Planning capital expansion would thus involve much longer-term planning ahead than would merely preparing the program for the next year's output of clothing or shoes. At the beginning of Industrial Expansion, most industries would not have much basis for doing such long-time planning. In such industries the capital expansion the first year or two would probably be left largely to the judgment of the individual concerns and industries, as recorded in their expansion program.

Meanwhile a start would be made in preparing long-time programs for the future. These might be drawn in terms of the national income to be produced 10 or 20 years ahead, and of the probable distribution of products to be produced to fit into those national totals. Then long-time programs would be developed by each major industry and fitted into these national goals, in the same way that the current programs had already been developed. Even if these long-time programs were developed only in rough outlines, instead of in operating detail like the current program, they would serve as a background to aid individual concerns and industries in planning their current increases in equipment so as to average out their demands for new machinery, buildings, etc., as smoothly as possible. Even if these long-time forecasts were not perfect, they should provide a much firmer basis for planning future expansion than business leaders have had available in the past.

The first steps toward long-range planning of investment might be made by setting up a 10-year national income goal. Thus at the same time the central administration set up say 80 billion dollars as the income goal for 1939, it might set up as a ten-year goal, for 1949, say 125 billion



dollars. Each industry could then base its plans for capital expansion on that long-time goal. That would involve (1) estimating what the demand for the products of that industry would be with the 125 billion dollar national income; (2) calculating how much expansion in capital equipment it would have to make to meet that demand; and (3) allocating the portion of that capital expansion which it would plan to make under its program for the first year—ordinarily one-tenth of the total. Then each year the long-time goals would be revised in the light of subsequent experience, and the subsequent capital expansion programs would be revised accordingly.

A few industries have already demonstrated their ability to prepare long-time plans for their future expansion. The telephone industry is one notable case. Other industries, such as the oil industry and the electrical industry, have been studying their growth trends very closely, and can use that information in estimating the most probable growth in the future. Many industries, however, have just "grown like Topsy." New plant has been built when orders began to outrun present plant capacity, without much consideration of how long those orders would keep up. New factories have been built by each of several competing concerns, without adequate information as to what expansion the rest of the industry was making. Many new facts will have to be gathered, many new industrial and economic studies will have to be made, and many new business statisticians and analysts will have to be educated and trained, before industry as a whole learns to plan its future long-time growth as well as its prospective current activity.

It will never be possible to forecast future developments perfectly. New processes may be discovered which will make millions of dollars of plant obsolete. New techniques

may be perfected which will cause great shifts in the geographic location of enterprises. The customers' preference in the way of style or habit may change suddenly or inexplicably. Wars here or abroad may distort the whole picture of national life. But these difficulties exist already. Business faces them today. It must continue to face them under any system which leaves the people of the country free to choose their own economic and political aims. But on top of these, business today faces the additional hazard that at any time a business depression may start, and without any previous warning sweep away a large part of the current market for goods. Under Industrial Expansion that would become almost impossible. The program of planned production would be underwritten through the government. It would protect businessmen from such general and unpredictable collapses of their market. Free from the threat of extreme business cycles, businessmen could prepare long-time plans with far more confidence than they can today. Those long-time plans, in turn, with the steady rate of investment they would help bring about, would make the crazy gyrations of business activity such as over the last twenty years more and more a thing of the past.

#### XIV

*Where will industry get the money to finance the increased production?*

Business will get the money from the same place it gets the money to run its present operations; from its own resources, from the banks and from the capital markets. In-

dustrial concerns will first work out programs of expansion for their industry. Next they will sign contracts with the designated government agency to produce that increased production. Then they will go to their own banks for whatever funds are needed to finance the increased output. The banks will be glad to have the business. Banks are literally starving today because of the lack of suitable loans. They are trying desperately to keep alive by imposing service charges on checks to replace the income they used to get from interest on loans. Loans to expand production will be safe loans. They will be backed both by the general industrial expansion program and the government underwriting. If the contracted production is not sold the government agency will take over the excess at an agreed discount.

The business expansion will be safe. Every reliable businessman with an expansion contract will be a preferred borrower. Banks will compete for his business, and will gladly lend him all the funds he needs at moderate interest rates. Employment will expand. As pay rolls grow workers will spend their rising incomes to buy the increasing output. The product will be sold and the first loans repaid. New and larger loans will be negotiated to finance the still larger output that will be called for under the expanded programs of succeeding production periods. Banks and other financial institutions will thus share in the general prosperity which will come with expanding industrial activity. They will themselves provide part of the necessary machinery for that expansion.

After the first expansions are made, the increase in production will continue to the point where existing capacity is inadequate, and where additions are necessary in some concerns or industries. Even in the early years the long-

time plans will begin to provide for plant expansions. The production contracts with the government and the record of expanding profits will make cooperating concerns favored borrowers. Some will turn to the security markets, where they will then be readily able to float new issues of bonds or stocks. Other concerns will finance plant expansion largely from banks. Concerns too small to enter the national security markets might secure long-time capital locally or from the R.F.C. Perhaps, as has been suggested recently, the Federal Government may establish some form of Business Credit System parallel to the Farm Credit Administration for farmers. Such a federal system would restrict its operations to meeting the capital needs of business concerns so small that the costs of entering the national security markets are prohibitive. (A small corporation wanting \$100,000 or \$150,000 of additional capital can hardly afford to pay what it costs to get a new issue registered on the exchange and floated by the underwriters.) In these and other ways, the financial resources of the country will be made available to finance the expansion programs under Industrial Expansion.

Of course, some bankers may oppose the program at the start, just as Wall Street and the financial community generally have opposed the efforts of the New Deal to prevent abuses and financial manipulation. Bankers are only human. They like the power they have held in the past. They will oppose economic changes that will lessen that power. Previously, their control over the creation of credit and over the use of other peoples' money have given some of them both power and incomes out of all proportion to their services to the community. They have been able to use their special position to force businessmen to pay exorbitant commissions for new capital. Through their posi-

tions on boards of directors of companies they control, they have been able to force concerns to borrow money they did not need, simply so they, as investment bankers, could collect their toll.<sup>1</sup> Such men will oppose Industrial Expansion, not because it will be bad for the country, but because it will be bad for them. But if they refuse to help finance Industrial Expansion programs, other means can be found. The Federal Reserve Banks and the Reconstruction Finance Corporation are now empowered to help finance business. If necessary, these powers could be enlarged to help get Industrial Expansion under way.

There is no question whatever as to our ability to provide the funds to carry out the expansion program. Our 1937 national income of under 70 billions was financed by demand deposits and money in circulation totalling about 32 billion dollars. Our peak production of 81 billions in 1929 was financed by demand deposits and money in circulation of only 27 billion dollars. Judging from these figures, and the experience of past years, it will take demand deposits and money in circulation of about 42 billion dollars, with no increase in the velocity of circulation, to finance a national income of 100 billions. About 50 billion dollars would be needed to finance a national income of 125 billions. If velocity of circulation increased with higher business activity, as it has usually done in the past, even less money than these estimates would be required to finance the higher activity. In contrast with this, our present bank reserves are adequate for demand deposits totalling 40 billions. This is about 15 billion above the present level of deposits. If all our monetary gold were put to work, and if bank reserve requirements were reduced to the level pre-

<sup>1</sup> See speech by William Douglas, Securities and Exchange Commission, March 24, 1937, before the Bond Club of New York.

ceding the precautionary increases in 1937, they would carry safely 78 billions of deposits, if so much money could be used without producing price inflation. That is enough to finance the production of a national income of 180 billion dollars worth of goods and services. On the financial side, then, there is no question as to our reserve capacity. Our banks can manufacture without strain every bit of check-book money our industries can safely use. In fact, they have the capacity today to extend as much credit as the most optimistic industrial expansion program would be likely to require ten years from now.

We will get the money to pay for Industrial Expansion just the same way we have gotten the money to pay for our previous industrial growth, from the credit and savings of the community, through banks and the securities market. Perhaps a little extension of public financing may be needed to put small businessmen on an equal credit footing with big concerns. With that one exception, Industrial Expansion can proceed through the accustomed machinery and finance of American business. The only difference will be that the decisions as to production and price policy will be made out in the open, and in the national welfare, instead of behind closed doors, and in the welfare of a small self-interested group of financiers and corporate directors.

## XV

*Won't some whole industries refuse to cooperate?*

If any major industry refuses to cooperate in preparing its program under Industrial Expansion, the administrative

agency can then prepare a program for that industry and require the industry to follow it. The concerns which refuse to operate according to their industry program would then have to pay the processing tax imposed on all concerns in industries under a program, but would get back no refunds; or would lose the right to operate in interstate commerce, or would suffer other hardships, according to the kind of sanctions provided in the basic legislation. Great power would thus be placed in the hands of the government administrative agency to secure the cooperation of concerns that might stand out against the general decision of the country that industrial production and employment should be expanded.

It is necessary for some such positive powers to be provided if some concerns are not to wreck any national program. This is shown by previous experience. At the same time this previous experience indicates that where the necessary powers are provided, big concerns will work with government agencies very gracefully.

The record of government relations with the tobacco manufacturing concerns illustrates this. During the time of the Federal Farm Board there was a large surplus supply of tobacco in this country and tobacco prices dropped very rapidly. Large supplies of tobacco on which the Federal Farm Board had advanced funds accumulated in the hands of the tobacco farmers' cooperative associations. The Farm Board asked the big tobacco concerns to send representatives to Washington to discuss a program for purchasing this tobacco. The companies sent down representatives, but only minor officials such as second assistant bookkeepers. These minor officials had no power to speak for their concerns. Nothing happened as a result of the discussions between them and the government officials. These

big companies who thus refused to work with the government agency were buying their tobacco much cheaper because of the large supplies and falling prices. In addition, they reduced the wages of their employees because labor was readily available during the depression, and jacked up the price of cigarettes in the face of reduced costs for tobacco and labor. As a result, even after paying high salaries and bonuses to their management, the profits of the four leading tobacco manufacturing companies jumped to \$114,028,000 for 1931. This was almost as much as the gross income to tobacco farmers from all tobacco grown in 1931, which was \$130,000,000.<sup>1</sup> The profits that year were so large that one of the big tobacco companies had a lawsuit with its president as to whether he should receive the several million dollar bonus called for in his contract for his "good work" in pushing up the profits for the company so dramatically.

When the A.A.A. law was passed, Congress gave the administrative agency definite power to help tobacco farmers adjust their production and eliminate the surplus. Again the big tobacco companies were invited to come in and talk over with government officials how a program should be developed. With the power in the hands of the Federal Government to levy processing taxes on them the president or some other responsible official of each big tobacco company promptly and graciously came to Washington to take part in the conference. They agreed to support the programs of the Agricultural Adjustment Administration. In addition, they agreed to a price stabilization plan under

<sup>1</sup> Income to tobacco farmers from "Agricultural Statistics, 1938," p. 432. Income of 4 tobacco manufacturers from A. C. Hoffman, "Dollar Sales, Capitalization and Earnings of Leading Food and Tobacco Corporations," U. S. Department of Agriculture, Bureau of Agricultural Economics, Feb., 1938, p. 22.



which they undertook to purchase the existing crop of tobacco at prices far above those at which it would otherwise have sold. This price stabilization was possible because the Agricultural Adjustment operations were going to bring subsequent tobacco supplies more nearly in line with the needs of the market. As a result of these changes, farmers' income from tobacco increased 73 percent, while the profits of the cigarette companies declined 38 percent.<sup>1</sup>

This experience shows that real cooperation between government and business can be secured when the people of the country give government real power to act, and that such cooperation cannot be secured from all concerns if government agencies are armed only with blank cartridges. The cooperation of business under Industrial Expansion will be sought by voluntary action, but where a small minority refuses to cooperate for the national good, government must be given adequate power to compel cooperation. That is the way that democracies work.

## XVI

### *Won't business take over Industrial Expansion just as it took over the N.R.A. codes?*

The N.R.A. differed from what is proposed for Industrial Expansion with respect to its basic legislation, to its administrative organization and procedure, and the range of

<sup>1</sup> Farm income from tobacco increased from \$130,000,000 for 1931 to \$225,000,000 for 1934. Net profit of the big 4 cigarette companies declined from \$114,028,000 to \$70,813,000 for the same year. See "Dollar Sales, Capitalization and Earnings of Leading Food and Tobacco Corporations."

industries it would cover. N.R.A. started with similar objectives of stimulating production and employment. As stated in its law, it was intended:

“to promote the fullest possible utilization of the present productive capacity of industries, to avoid undue restriction of production (except as may be temporarily required), to increase the consumption of industrial and agricultural products by increasing purchasing power, to reduce and relieve unemployment, to improve standards of labor.”

But although the N.R.A. Act stated these objectives, it contained no specifications at all as to how they were to be achieved. The President was given power to approve “codes of fair competition,” it is true, but the only positive provision as to what those codes should contain was that they should “tend to effectuate the policy of this title.” In practice, the formulation of the codes usually degenerated into a bargain between the industries and the government agencies. In return for agreements to reduce hours and set minimum wages (and the minimums were frequently pitifully low) the representatives of industry usually managed to get in return whatever new powers they wanted. What they wanted was usually the right, by one means or another, to control or fix prices, reduce legitimate competition, and control or limit production.

Then after the codes were formulated and approved, the code authorities, usually dominated by the leading units in the industry, proceeded to issue rules and regulations, levy assessments, and otherwise direct the affairs of the industry as they saw fit, with little or no public control or approval. What often happened was that “free competition” became “unfair competition.” The “low-cost com-

petitor" became the "chiseler." "Conspiracy in restraint of trade" became "meetings of the code authority."

The unanimous disapproval of the N.R.A. by the Supreme Court was apparently due in large part to this failure of its basic Act to lay down any policy as to how its objectives were to be achieved. It also reflected the failure of the N.R.A. administration to exercise any effective control over how industry was using the powers turned over to it by the government. This was evident in the Court's decision, where it said:

"But would it be seriously contended that Congress could delegate its legislative authority to trade or industrial associations or groups so as to empower them to enact the laws they deem to be wise and beneficent for the rehabilitation and expansion of their trade or industries? Could trade or industrial associations or groups be constituted legislative bodies for that purpose because such associations or groups are familiar with the problems of their enterprises? And, could an effort of that sort be made valid by such a preface of generalities as to permissible aims as we find in section one of title I? The answer is obvious. Such a delegation of legislative power is unknown to our law and is utterly inconsistent with the constitutional prerogatives and duties of Congress.

"Section 3 of the Recovery Act is without precedent. It supplies no standards for any trade, industry or activity. It does not undertake to prescribe rules of conduct to be applied to particular states of fact determined by appropriate administrative procedure. Instead of prescribing rules of conduct, it authorizes the making of codes to prescribe them.

"For that legislative undertaking, section 3 sets up no standards, aside from the statement of the general aims of

rehabilitation, correction and expansion described in section one. In view of the scope of that broad declaration, and of the nature of the few restrictions that are imposed, the discretion of the President in approving or prescribing codes, and thus enacting laws for the government of trade and industry throughout the country, is virtually unfettered. We think that the code-making authority thus conferred is an unconstitutional delegation of legislative power ”

A further shortcoming with the N.R.A. was the lack of effective teeth in its basic law. It had no actual administrative powers to enforce compliance. When a concern ignored a code, all that the Administration had authority to do was to appeal to the courts. The Administration hesitated for a long time to start court action, in the search for a good test case and in the hope that compliance could be secured otherwise. Finally it was decided to enter upon the long process of judicial consideration and appeal. As the courts became clogged with cases, and as more and more concerns began to evade their codes, compliance generally broke down. The Act was already becoming a dead letter in practice even before the Court handed down the Schechter decision.

The administrative breakdown of N.R.A. was accelerated by the attempt to bring practically all American business within the framework. Codes were approved not only for the important major manufacturing industries, but for small individual industries of the most minor and miscellaneous nature, such as Nottingham lace curtains, bias tape, horsehair dressing, spice grinding, and tapioca dry products. In addition, codes were developed for many lines of wholesale and retail trade, such as optical wholesale, live poultry of Metropolitan New York, and wholesale beauty

and barber shop equipment. There were codes for such localized service industries as cleaning and dyeing, laundries, and private home study schools. The effort made was to arrange for the details of operation for all manufacturing, distribution, and service businesses, large and small, and to enforce the arrangements made. That far overtaxed the ability of the administrators to maintain effective control of the vast and sprawling undertaking.

To their credit, it must be recognized that not all industries misused their powers under N.R.A. Many public-spirited businessmen welcomed N.R.A. as a means to put a floor under wage competition, to shorten burdensomely long hours, and to end child labor. Many such businessmen maintained the shorter hours and higher wages voluntarily, even after the act was invalidated by the courts. Such forward-thinking businessmen would recognize the opportunities Industrial Expansion would provide for even greater social gains. They would help smooth the way toward rational and considerate solution of the conflicts that the industry authorities would have to solve.

As a composite result of the failure of the N.R.A. Act to specify how its ends were to be achieved, of the tendency of business to use the powers conferred for its own immediate gain rather than for increased output and employment, and of the breakdown of compliance, N.R.A. had little demonstrable effect on employment. Prices went up about as much as workers' earnings, which tended to hold back production rather than expand it. The New Deal was doing other things to stimulate recovery at the same time, such as the A.A.A. crop adjustments and payments to farmers, the monetary policy boosting prices, at least temporarily, and the large spending of federal funds for relief, C.W.A., P.W.A., and other projects. If it hadn't

been for these other things, N.R.A. alone might have reduced employment rather than increased it.

In contrast with the vagueness and lack of power of N.R.A., Industrial Expansion would provide clear-cut policies in its Act, definite teeth to carry it into action and positive checks against misuse of its powers.

Its basic law would require that no industrial program could be approved until it provided three things:

1. A positive increase in production, properly fitted into the production programs for other major industries.
2. A positive increase in employment and pay rolls.
3. No increase in the general price level (for the composite of all cooperating industries).

That means that the program would put more men at work and disburse more buying power, but would not increase the cost of living. Not only would more goods be produced, but there would be the increased buying power to buy and consume them.

The law would also provide effective administrative sanctions to carry it into effect. Regardless of whether these were taxes and refunds, licenses, or other procedures, they would—barring court injunctions—make it possible to go forward under administrative penalties. Under the N.R.A., on the contrary, no enforcement was possible without court action.

Industrial Expansion would not repeat the mistake of N.R.A. in attempting to concern itself with every factory, every store, and every pants presser. On the contrary, only the big basic manufacturing and utility industries would be included in the expansion programs. Smaller and miscellaneous manufacturing industries, and the whole vast complex of distribution, marketing, and service industries,

would be left outside the programs.<sup>1</sup> Their expansion would come as a response to the expansion in the basic industries. Industrial Expansion would thus restrict its coverage to a much narrower range than that of N.R.A. It would be able to give far more effective attention to the arrangements and developments in the restricted field with which it was concerned.

Finally, the administrative structure of Industrial Expansion would be so set up under its basic Act that effective checks would be imposed on businessmen who wished to divert it to their individual interests. The Industrial Expansion programs would not be devised by a business management group alone, but will be worked out in an industry council or authority where management, organized labor, consuming interests, and the government administration are equally represented. The programs for the industry will be in the nature of a collective-bargaining agreement between all these interests. In arriving at this bargain, each of the other interests will have equal power with business management. Furthermore, the approval of the final programs, and the check on their performance, will not be in the hands of industry alone, but in that of public agencies. While they may use the Industry Authorities to assist them in these duties, the ultimate administrative power will at all times be exercised by the public officials.

If you turn businessmen loose, without any guidance as to general policy, to use the powers of government to fix up what is wrong with their industry, they naturally try to fix the things that seem to them to be the immediate troubles. The things they are aware of during periods of

<sup>1</sup> See Chapters XXIII and XXVI for a detailed discussion of the industries which would not be covered by the Industrial Expansion programs, and of the way in which they would be influenced by the programs elsewhere.

depression are too active competition from their competitors, too much production for the existing market, too much competitive price cutting. That is why they sought for restrictions under the N.R.A. codes.

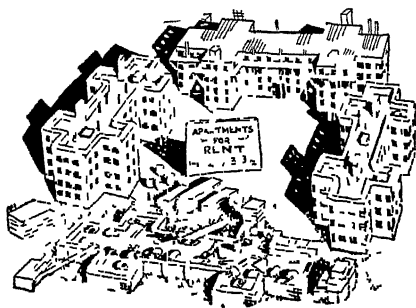
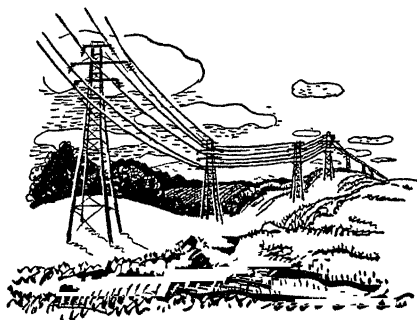
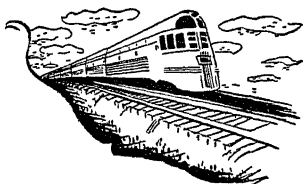
Under Industrial Expansion, on the contrary, you would ask businessmen to share in definite advance programming of increased production, increased employment, and increased sales, as part of producing and consuming an increased national income. Further, you would insist, from workers, consumers, and government, that business take no steps that are not consistent with this general expansion program. When you do that you will put businessmen in a different position. They will then be in position to see what the program as a whole is driving at, and how they will fit into the picture. With the additional assurance that out of the expanded national production and income there will be enough for more wages, more farm income, and more business profits, all at the same time, it should not be so difficult to get most businessmen to pull along with everybody else for the general welfare.





PART FOUR

OTHER  
SPECIAL  
INTERESTS





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PART IV

OTHER SPECIAL INTERESTS

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XVII

*Will housewives have to use ration cards under  
Industrial Expansion?*

Industrial Expansion depends upon each major industry following programs of expansion agreed upon in advance. Many people have feared that that would mean that ration cards would be issued to each family, and that when Mrs. Jones or Mrs. Brown go to the store, they could buy only what their cards called for. Since the total amount of bread and overalls and shoes are planned in advance, they think that must mean that each housewife would only be permitted to buy her fixed share of the total. Something like two loaves of bread a day, one pair of overalls a month, and one pair of shoes each three months, they fear, is what each family would be entitled to. If the members of the family didn't like what they were assigned, and would rather have something else instead, so much the worse for them—they fear they would have to take the same share that was planned for each person, and be glad for it.

There is some reason why many people should believe

planning will work this way. In the early days of socialism in Russia, and for many years thereafter, there was barely food enough to go around, and practically no textiles. Food and clothing were doled out according to ration cards issued to each loyal worker. Ration cards were more precious than money. Even in our own country, during the World War, sugar and some other scarce foods were rationed out, so many pounds to each family each week. If each person is entitled to exactly the same amount, it is very easy to plan out how much will be needed for all. So many people jump to the conclusion that that is necessarily the way that any kind of planning would have to work.

Actually, Industrial Expansion will work entirely differently. No ration cards will be issued to housewives or families. People will go to the store to buy what they want just like they do now. The only difference will be that more men and women will have jobs, and that pay will be higher. People will have more money to spend. They will find more things in the stores when they go to buy. They will be able to spend their money for whatever they want to spend it for, just as they have always done. If they would rather use some of the extra money to take a trip or to buy a rug or to send a present to Grandma, they will be perfectly free to use it just whatever way they please.

But you can't tell ahead of time how Mr. Jones and Mrs. Wilson will spend their money. How then can you plan ahead how much of each thing to produce? Won't your plans go all wrong unless you control what people buy? Won't you be driven to use ration cards like the Russians did?

The answer is very simple. To plan ahead, it isn't necessary to know exactly what Mr. Brown and Mrs. Smith and Sally Jones will buy at the store, so long as you can tell what

ten thousand or ten million Browns and Smiths and Jones all together will want. Planning production under Industrial Expansion will work much the same way that selling life insurance works today. When an insurance agent sells Mr. Jones a life insurance policy, the company doesn't know just when Mr. Jones will die. Of course they have a doctor examine him, to make sure that he isn't already sick and likely to die right away. But beyond that they have no exact knowledge of what the future holds for him. They take his \$25 premium for the year, and agree to pay Mrs. Jones \$1,000 if he is killed. Mr. Jones may step in front of an automobile tomorrow, or he may live to a ripe old age. Neither the insurance company nor anyone else can tell which will happen. But the insurance company does know, out of 10,000 men of Mr. Jones' age, just about how many will die this year and how many next year. The records of past experience, for men of each age, have been analyzed and interpreted to tell them that. So although no one can tell just when Mr. Jones will die, the insurance company can tell very closely, out of all the Joneses and Browns and Lewises it has insured, how many death claims it will have to pay each year ahead, and it figures out its premium charges accordingly.

In the same way, it will not be necessary under Industrial Expansion to know exactly how Mrs. Jones or Mr. Black or Sally Barnes will spend their money. All that is necessary is to know what all the people in each city, all put together, will want to use their money for. And just as the mortality statistics give life insurance companies the basis for figuring out their premiums, so will the figures on previous income and sales give a basis for figuring how much production of bread and shoes and carpets and every other major industrial product will be needed under the

Industrial Expansion programs. The business records of the past show, for each concern, how much of its product was sold at different times. These will all be brought together and added up. Other records show how much pay rolls were at the same time, and how much people got in other ways. By studying the statistics for other periods when pay rolls and earnings were increasing, statisticians can find out the things that people buy when they have more money. They can estimate pretty closely how much increase will be needed in bread, how much in shoes, how much in suits, and how much in automobiles, to satisfy the demand when Industrial Expansion boosts incomes.<sup>1</sup> These figures can be checked another way, too. The W.P.A. has recently finished a big nation-wide survey of how people spend their money, called the National Survey of Consumer Expenditure. In the urban areas this survey was supervised by the Bureau of Labor Statistics, and in the farm areas by the Bureau of Home Economics. This study separates families according to how much money they have to spend. Then for families with each income, it shows how much they spend for rent, for clothes, for food, for heat, medicine, books and for other things. Of course the figures are on the average—some families spend more for clothing, and some less. But if on the average the right amount of bread is baked, then what is left over from those who want less bread than average will just take care of those who want more. These figures give a very clear basis for figuring out what people, as a whole, will want to buy when Industrial Expansion gives them more work and more money to spend. By comparing what families in the relief class buy with what families with \$1,000 a year to

<sup>1</sup> The figures given in Chapter XI are a rough indication of what such studies would show.

spend buy, for example, you can figure out the additional things that would be purchased, on the average, by each family which was removed from relief by the breadwinner getting a job at a starting level of \$20 a week.

Of course the estimates of what people will want to buy won't be perfect. A mild winter might reduce the number of blankets sold and increase the demand for hiking shoes. New styles will continue to change the demand for hats and dresses. Fashion and fads will continue to sway people in the future as in the past. Some lines of production sharply affected by style changes, such as expensive hats and gowns, and other style lines, especially in women's goods, will be left out of the planned programs entirely. In such very capricious lines, it will be best to let the concerns continue to guess what will appeal to the fashionable ladies at their own risk, just as they have done heretofore. But products such as bread, milk, fruits, meat, work shoes, everyday clothing, coal, inexpensive houses, furniture, rugs, steel, cement, are not so subject to day-to-day style changes. For them the forecasts will be reasonably accurate. For them the increase in production will come pretty near providing what housewives and others will want to buy.

And even if the forecasts do not work out exactly right, that will not be fatal. All industries carry some reserves of inventories or stock on hand. These stocks will even out the minor errors in forecasts. Where larger errors occur, even that can be corrected. If demand does not come up to the supply, the surplus will be bought and held by the government until it is needed. The function of this "ever-normal warehouse" in giving businessmen assurance in planning their year's operations was discussed more fully elsewhere.<sup>1</sup>

<sup>1</sup> See Chapters XII and XXV.



If demand does exceed the supply, then the industry programs will have to be changed. If the industry is one where production can be expanded readily, as most of our industries are, then the year's production program will be increased to cover the unexpected demand. If production cannot be increased so rapidly, then prices will be permitted to rise temporarily, just as they do now when supplies are short. Meanwhile, definite programs would be developed to meet the demand as promptly as possible.

Mrs. Jones and Mr. Smith and Mary O'Casey have nothing to fear. They will not have to follow the dictates of any dictator or bureaucrat as to what they can buy. Under Industrial Expansion, as in the past, they will be able to spend their money for whatever they want. The only difference is that they will have more to spend than they have now. Deciding how to spend more money is one problem that will cause very little trouble to most men and women.

## XVIII

### *How will Industrial Expansion affect farmers?*

Farmers will benefit from Industrial Expansion just as much as will city people. Today, farmers are suffering from low prices because so many city people are without jobs. City families living on relief payments can buy only the poorest and cheapest foods. They cannot afford much fresh milk or butter, or fresh fruit, or meat. They can buy only the simplest clothes, so they use little cotton or wool. Besides the ten million workers unemployed, another ten million

are working at such low wages that they can buy food and clothing only sparingly. The government, through the Surplus Commodities Corporation, is buying up some surplus goods to distribute free to those on relief. These purchases, though, are but a drop in the bucket of unfilled wants for more and better food which would be filled if there were good jobs for all.

Over the past six years, farmers have used the centralizing power of government to work out a system of agricultural control. At first they used that system to try to hold production down to what the market would take at a reasonable price. More recently, under the Soil Conservation Act and the ever-normal granary provisions of the Farm Act of 1938, they have moved forward from the early attempts to restrict the supply on the domestic market, and instead are now aiming to provide American consumers each year the full average consumption of each product. When bumper crops are harvested, the excess is placed in storage to insure that adequate supplies to meet the normal consumption will be available in future years. Under the present system, therefore, farmers undertake to supply the normal domestic demand fully, but not to oversupply it. That system saves farmers from blindly shoving unwanted surpluses onto already glutted markets, as they did from 1929 to 1932. But when unemployment and low wages restrict the buying power of city consumers, farm income suffers even with the A.A.A. in operation. Supply and demand both affect farm prices and income. The A.A.A. operations help to adjust the supply. The buying power of the city population is the major factor on the demand side. That half of the farm problem can only be solved by city industry. Jobs at fair pay for all city workers are essential for good incomes for farmers.

The way in which both farmers and city workers depend on a high level of employment is shown by the way their incomes go up and down together. In 1929, factory wages totalled 11.6 billions, and the gross value of farm products totalled 11.9 billions. By 1932, both had dropped to about five billions, and by 1937, both were back up to about ten billion.<sup>1</sup> Of course, that doesn't mean that factory workers bought all the farm products or that farmers are the sole market for factory products. It does show how closely linked together are the fortunes of farmers and laborers.

Farm prosperity is tied to city prosperity in one other way. There are always more people growing up on farms than are needed there. Two-fifths of all farm boys between 10 and 20 years old migrated to the cities between 1920 and 1930. In many of our cities births are so low that they could not maintain their own population without this steady inflow of new healthy human material from the farms and rural districts.

When business is bad and jobs are hard to find, more boys and girls stay home on the farms. Others who have gone to the city earlier return home to find a place to eat and sleep. Between 1930 and 1935 two million extra workers were thus dammed back on the farms, who in ordinary times would have found work in the cities. That increased the supply of farm labor, and resulted in much new and often poor land being brought into cultivation. All through the poorest farming regions of the country you can see the rough shacks of these "depressionnaires," nailed together out of scraps of rough boards, tar paper, and tin.

<sup>1</sup> U. S. Department of Agriculture, "Facts Relating to the Agricultural Situation in 1938," Ex Parte No. 123, January, 1938, p. 33, Bureau of Labor Statistics, "Revised Indexes of Factory Employment and Pay Rolls," *Monthly Labor Review*, September, 1938.

# SIMPLE SOLUTION TO THE NATION'S PROBLEMS



① FARMERS AND INDUSTRIALISTS  
TRADE PLACES FOR A YEAR



② FARMERS (RUNNING INDUSTRY)  
IMMEDIATELY INCREASE PRODUCTION  
FROM FORCE OF HABIT



③ INDUSTRIALISTS (RUNNING FARMS)  
IMMEDIATELY CURTAIL PRODUCTION  
BECAUSE GRAIN MARKET IS DOWN.



④ INCREASED INDUSTRIAL PRODUCTION  
STARTS BOOM, REDUCES UNEMPLOY-  
MENT AND ENDS RECESSION



⑤ CURTAILMENT OF CROPS ENDS  
SURPLUS PROBLEM MAKING POSSIBLE  
NEW FARM PROSPERITY.



⑥ FARMERS AND INDUSTRIALISTS  
RETURN TO THEIR OLD JOBS,  
WHISTLING WHILE THEY WORK.

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Herblock in *The Boston Transcript*

*As the cartoonist sees it, the problem is a simple one*

The situation in Kentucky is representative. In 1932 the school authorities became alarmed about the overcrowding of the rural schools. One such county conducted a census, and found that every habitation in the county, no matter how ramshackle or how long abandoned, had a family living in it. They found several hundred "foreign" automobiles in the county. Almost every one of them had a Michigan license tag. In 1929, Henry Ford and General Motors Corporation had made mechanics out of mountaineers. By 1932 they drifted back to where they came from. This great surplus of farm labor creates increased pressure on the supply of farm products.

Increased industrial activity would drain away these unneeded excess workers from the farms, and give them useful employment in industry. That will reduce the competition in farming. Of course, it will also increase the wage rates that farmers have to pay their labor, but that will not hurt them. Farmers do not gain when they can buy labor and materials cheap, for under those conditions they find they must sell their products even more cheaply. Between 1929 and 1932 farmers reduced their annual cash expenses 1,739 million dollars. At the same time their gross income fell by 6,604 million dollars. Between 1932 and 1936, farm expenses went up by 245 millions, but gross farm income went up by 4,113 millions.<sup>1</sup> Farmers are much better off when they can get good prices and pay good wages than when they can only sell cheap and so must buy cheap. Industrial Expansion will increase farmers' incomes by far more than it raises their expenses.

Under the A.A.A. and the new Farm Act of 1938, farmers are already prepared to cooperate in Industrial Expansion. No new administrative machinery on the farm front

<sup>1</sup> "Facts relating to the Agricultural Situation in 1938," p. 33.

will be needed at all. The only difference will be that the goals of production and the acreages for each farm product will be based on the expanding market which the Industrial Expansion programs will provide, instead of on the limited city demand which has existed in the past. For those products where higher income means larger demand, the acreage quotas or the marketing quotas under the marketing agreements would be increased year by year. After two or three years the problem would cease to be one of holding down production to what the market would take. Instead, it would become one of shifting or expanding production to meet the needs of the market, without depleting the soil or increasing soil erosion. Methods of fertilization, green manuring, and other ways of increasing fertility and maintaining soil productivity for increased production would receive even more emphasis than they have received under the soil conservation programs of recent years. The A.A.A. would guide farmers in shifting their production to what was needed. The only surpluses it would have to deal with would be seasonal ones from fluctuating crop yields.

Our farm production will have to be sharply shifted to satisfy the new demands Industrial Expansion would stimulate. Some of the directions this shift might take are indicated by studies already made in the Division of Program Planning of the Agricultural Adjustment Administration.<sup>1</sup> If the present markets for our major farm products are compared with what the market would be when each

<sup>1</sup>For a discussion of the reasoning involved in the preparation of estimates of this type, see "The Farmer Looks Ahead," U. S. Department of Agriculture, *Farmers Bulletin* No 1774, May, 1937, and speech by F. F. Elliott, "Consumptive Habits and Production Programs," October 30, 1934, U. S. Department of Agriculture, Ext. Service. (Mimeographed).

worker's family had an income of \$3,000 to \$4,000 a year, and so could consume what is usually purchased by families with such incomes,<sup>1</sup> the changes would be as follows:

PRODUCTION NEEDED TO SUPPLY OUR DOMESTIC MARKET  
PLUS NORMAL EXPORTS  
(AT PRESENT NORMAL YIELDS)

<i>Crops</i>	<i>Present demand Million acres</i>	<i>Full demand Million acres</i>	<i>Increase Percent</i>
Corn	95 0	<sup>2</sup> 129 0	35.7
Hay	67.5	102.5	51.8
Cotton	30.5	39 0	27.9
Wheat	62.5	62.5	0
Fruits and truck crops	8.0	12.8	60.0
<i>Livestock &amp; products</i>			
	<i>Million head</i>	<i>Million head</i>	
Hogs slaughtered	63.3	<sup>2</sup> 95.0	50.0
Beef cattle slaughtered	13.9	17.6	26.5
Dairy cows kept for milk	25.9	38.8	49.8
Poultry on hand, Jan. 1	422.9	668.0	58.0
Sheep and lambs slaughtered	21.7	37.8	74.2

The shift shown above would supply a much increased supply of vitamins, minerals and other protective elements in the greatly increased consumption of milk and other dairy and poultry products, in fruits and vegetables, and in meat and livestock products. These more adequate diets would greatly increase the health of the present large

<sup>1</sup> Hazel K. Stuebeling and Esther F. Phipard, "Diets of Families of Employed Wage Earners and Clerical Workers in Cities," Circular No. 507, U. S. Department of Agriculture, 1938.

<sup>2</sup> This assumes that we would shift our hog production to a type producing more lean meat and less lard. Even with this shift, it would still be necessary to export very large quantities of lard and salt pork as by-products from the production of lean products for domestic consumption.

underprivileged sector of our population. Better health in turn would make them happier and better workers and more useful citizens.

In estimating the figures just given, no allowance was made for the fact that such a shift in agricultural production and consumption might itself involve some change in the selling prices of the products. For example, it will probably not be possible for farmers to increase production of hogs, lambs, fruits, and vegetables, and dairy products by half or more, unless prices of such products were raised as compared to prices of other products. In preparing the actual operating programs under Industrial Expansion and in modifying those programs as operating experience accumulated, the effect of these changes in relative prices upon the quantities that consumers would use would have to be taken into account along with the effect of the increased buying power in the hands of the consumer. After allowances were made for such price changes, the general shift in the quantities consumed would still be in the general direction shown in the estimates given, even if the changes in prices prevented the actual percent changes from being quite as large as shown in these rough computations.

The increased demand for fruits and vegetables, dairy products, and meat will help solve the South's problem of its vanishing export market for cotton. The area that can produce watermelons, strawberries, sweet potatoes, early potatoes, cabbage, citrus fruits, peaches, and other specialty products is almost unlimited. Each increase in their production will mean one more area of intensive and profitable commercial agriculture. Under proper seeding and pasture rotation, most of the South can produce excellent pasture over a much larger grazing season than in the North. This



has been strikingly demonstrated by Hugh MacRae at Invershiel Farm near Wilmington, North Carolina. Here, through wise selection of grass seeding and restricted grazing, farms that were once discarded as worn out for crop production have been built up into fertile pastures, and now about four acres planted in succession to several different annual crops will support one cow. The cows do all the harvesting without human labor, and stay on pasture 12 months a year. As city demand increases, more and more Southern farm land can be profitably devoted to such uses. Production of cotton for our shrinking export market can decrease, and be replaced by this more permanent form of agriculture. Not so many workers will be needed per farm, it is true. More men will be released from farms for city employment. Those that remain on farms will be more usefully and effectively employed, and the whole South will benefit from the widened base of farm income. At the same time the increase in the demand for dairy products will be so large that all that can be produced in the established dairy regions in New York, Wisconsin, and other northern states, and in these new dairy areas as well, will find ready sale at good prices.

Both farmers and industrial labor must work together in trying to solve the industrial problem. Their broad interests are one and indivisible. They prosper or suffer together. Yet it is often difficult for them to remember or appreciate this underlying unity of interest in the face of short-time interests which are apparently diverse. It is only human to want to sell dear and to buy cheap. Farmers tend to grumble at high prices for industrial products, without stopping to remember that high prices for farm products depend on the buying power of the cities. Labor groups tend to resist increases in prices of food, and some-

times have even boycotted meat, without stopping to inquire whether those high prices were due to bad weather or droughts, or whether the price increases were because prices before had been disastrously low. Farm groups sometimes have been led to break up strikes of creamery operatives or canning-factory workers because the market for their products was cut off, without stopping to consider whether the contentions of the strikers were justified or not. All the statesmanship and vision of the leaders of farmers and of labor must be applied to the task of getting both groups to appreciate their larger common interests, and to work out mutual solutions of those problems where for the moment their interests appear to be divergent. Businessmen, likewise, have a common interest with farmers and with labor in increased and full production. The cooperation of businessmen is needed in solving the mutual problems. When farmers, workers, and businessmen cooperate in conscious programs of Industrial Expansion, their common interests in the success of those programs will become apparent and obvious.

Farmers did not like to plow under cotton, or to kill pigs instead of fattening them. When under the early A.A.A. programs, they combined to restrict marketing, or to hold good land out of cultivation, they did it with reluctance and a heavy heart. They grumbled and swore at a social system that forced them to restrict production in order to keep from going bankrupt themselves. Secretary Wallace expressed this innate feeling of farmers when he said: "To have to destroy a growing crop is a shocking commentary on our civilization."

Once Industrial Expansion starts to increase industrial demand, it will no longer be necessary for farmers to hold down on output so as to prosper in our civilization. Instead

they will turn with a glad heart to increasing the yields of their seed stock and the productivity of their breeding animals. The breeder of superior plants and animals will again become active. Farmers will produce abundantly yet without fear. They will provide amply for the city workers, and in turn will receive back a generous share of what the city produces. Agriculture and industry will continue in balance, but instead of seeking to balance scarcity they will both move forward to a balanced abundance.

## XIX

*What will be the effect on farm laborers?*

Most of the human labor on our farms is done by the farmers themselves. A little more than half of them are owners. The remaining less than half are tenants, paying either a cash or share rent. The farm owners and tenants, together with members of their families who receive no pay in cash, do most of the work in farming. In addition, hired men are employed on the larger farms, or field or wage hands are used as supplementary labor at planting and harvesttime. These farm laborers may be hired year-round and live practically as one of the family, like the traditional "hired man" of the Midwest, or at the other extreme they may be hired merely for a few hours or a few days, at a daily wage or on a piece rate basis.

Out of the 10½ million people working in 1929 on farms, about 2¾ million were hired laborers. Since then the number has declined, dropping to 2,495,000 by 1932. The

decline in the number of paid farm workers reflects several causes. Unpaid family labor has increased with the larger population dammed back on farms. Unsatisfactory income from farming has forced farmers to economize in every possible way. The continued improvement in the quality and efficiency of farm machinery has reduced the labor needed on farms. Finally, acreages of intensive crops such as cotton and tobacco have been restricted or reduced because of the limited foreign market.

At the same time that the demand for farm labor has been declining, the supply has been increasing. The number of men looking for farm work always closely reflects employment possibilities in the cities. When city jobs are scarce, men turn to farming as a last resort.

During the years of the depression many city families settled in the open country. A few of these have found empty houses or built comfortable cabins for themselves. Most of them, though, have built the cheapest sort of shacks, as already described. Many have settled in wooded areas, long abandoned as too poor for commercial farming. There they have cleared a small tract of land, and are attempting to grow at least some green vegetables and potatoes as food for themselves. The census of 1935 showed that the number of farms of less than 20 acres had increased about 200,000 since 1930.<sup>1</sup> Many of these represented the families of this back-to-the-land movement born of the depression and unemployment. Practically all of these families hope to find extra work on the farms or the roads, or in lumbering, to supplement the pitifully small product they can grow for themselves on their small clearings.

<sup>1</sup> This is the change after adjusting the increase of 548,000 reported by the Census to allow for changes in the method of counting small farms.

With a reduction in the demand for farm labor, and an increase in the supply, farm laborers failed to share in the national recovery from the great depression. In 1929, farmers are estimated to have paid out 1,194 million dollars to farm laborers. By 1932, the payments to farm laborers had fallen to 475 million. Since then, farm income has greatly increased, but farmers' payments to hired labor in 1936 were still only 592 million. By 1937 the payments had gone up to 673 million.<sup>1</sup>

The farm laborer has thus been the ultimate forgotten man of the recovery period. What he lost during the period of agricultural distress, he has not gotten back again during the period of recovery. Farm income dropped from 11.9 to 5.3 billion between 1929 and 1932. Payments to labor dropped even farther. Farm income rose to 9½ billion by 1936, payments to farm labor increased hardly at all. The share which hired farm laborers receive out of the gross income of agriculture has been steadily shrinking. It was 10 percent in 1929; by 1932 it was only 9 percent; and by 1936 it was down to 6.5 percent.

"The earnings of farm laborers are low, even of those who escape relief. An approximate average annual cash income of only \$265 was reported by a recent nation-wide study of farm laborers in eleven representative counties. In three of these counties, cash income was less than \$200, and in one of them it fell as low as \$127. These laborers were not indigents, for less than two percent of their average income came from relief. As might be expected, dependence on relief was greatest in the county where cash income was lowest. In that county, because of the inade-

<sup>1</sup> U. S. Department of Agriculture: "Agricultural Statistics, 1938," U. S. Government Printing Office, p. 434, for payments through 1935. 1936 and 1937 are estimates by the A.A.A.

quacy of earnings, twenty percent of the farm laborers received relief.”<sup>1</sup>

The plight of farm laborers has been made increasingly serious by the large numbers swept from their previous homes in recent years. First the dust storms, and then later the widespread adoption of the improved general purpose tractor, have displaced thousands of tenants, owners, and laborers from the Great Plains and the cotton South. Most of these have moved west, to increase the already superabundant supply of itinerant labor on the Pacific Coast. A quarter-million such persons entered California alone from 1935 through 1937, and the migration still continues in almost undiminished volume. Unable to obtain relief because of lack of residence, constructing squatters' camps “of wood, tin, or such cast-off material as can be obtained in the vicinity,” subject to smallpox, typhoid, and other diseases, with their children undernourished and sickly, most of these families live in a squalor and misery inexcusable in our rich land. The migratory workers' camps constructed by the Farm Security Administration, although doing much to show what could be done, still meet only a small part of the problem. These workers drive on the average over 500 miles to get each new job of seasonal work on peas, cantaloupes, grapes, or melons, and then often find no work at the end of the drive. Outcasts from farm and city, these “dust bowlers” are living evidence of the shortcomings of our industrial order.

When Industrial Expansion starts putting city people back to work, it will greatly improve the position of the

<sup>1</sup> Paul S. Taylor, statement before Senate Committee, “Hearings before a Special Committee to Investigate Unemployment and Relief United States Senate,” 75th Congress, 3rd session, Volume 2, March 14, 1938, p. 1157.

farm worker, both on the demand side and the supply side. Rising city income will increase the demand for farm products. Farmers will produce and sell more milk and vegetables and fruit and other products at higher prices. More farm workers will be needed, and farmers will have the income to pay them better. How much additional farm labor such an increased market would require is shown roughly by tentative estimates already worked out by the Division of Farm Management of the Bureau of Agricultural Economics. The reduction in cash crops, and the increase in livestock and specialty crops, would spread the work out better over the year, and provide more days of work for seasonal labor now employed only part time. Perhaps one-quarter of the additional labor needed could be provided in that way, while three-quarters would make jobs for more men. In that case by the time there is full employment in the cities,  $3\frac{1}{2}$  million more men would be needed to work on farms. Unless labor-saving machinery on farms is greatly increased, there would be an increase of 44 percent in the total man-hours of labor used in farming. Many farmers who do not now hire labor will be hiring men, and those who already have hired workers will be looking for more. The expansion of the production of intensive products, such as fruits and vegetables and fluid milk, will develop especial needs for more man power on farms and will provide more year-round jobs for farm laborers.

Meanwhile Industrial Expansion will be correcting the oversupply of farm labor. As expanding business activity makes new jobs in the cities and industrial areas, the superior opportunities in industry will attract men back to the city. Many country families will move out of their flimsy shacks and give up their handkerchief gardens, and

go back gladly to steady jobs at decent pay. The sons and daughters of farmers will leave their parents' farms and seek the wider possibilities in the cities, just as they have usually done in the past.

The excess population dammed back on the farms will be drained away into industry. There will be less unpaid family labor on farms, and more need for labor. The position of the farm laborer will rise accordingly. Even though the farmer will have to pay more for hired labor, that will not be a burden to him. As was shown in the preceding chapter, farming is an industry where low income can never be completely offset by reduced expenses, and where good times increase income faster than they increase expenses. Widespread restoration of city employment through Industrial Expansion can increase farm income to far above what it was from 1924 to 1929. Farm labor will receive decent living wages, and farmers will prosper at the same time.

The farm labor problem is especially acute in the South. There the birth rate far exceeds the death rate, and the excess of population is very large. Much of the land is badly eroded or worn-out. Even in the more prosperous sections, such as in the Mississippi Delta or the Kentucky Burley tobacco areas, the cropland per farm family is very small. The typical farm in the South has less than 50 acres, as compared with about 150 in the Corn Belt. The major cash crops, cotton and tobacco, and the specialty products, such as peaches, strawberries, watermelons, and early vegetables, are largely intensive crops requiring much labor per acre. The large surplus of labor available has encouraged farmers to use labor wastefully, and has retarded the substitution of animal or mechanical power for human effort. In consequence of all these factors, the value of farm prod-



uct produced for each man-hour used is very low in the South. Even though farm wages are desperately low and tenant incomes are enough only to cover the meanest kind of food and clothing, the farmers for whom these laborers and tenants work also usually have low incomes. More production per man, not redistribution of what is now produced, is needed to cure Southern poverty.

Industrial Expansion will provide entirely new opportunities for Southern farmers and farm workers. In areas like Birmingham, the Tennessee Valley, and the Piedmont Plateau cotton mill area, industrial activity will increase rapidly. There will be many more jobs near at hand to provide work at decent pay for the excess farm population. The demand for specialized products of the South will increase, and the acres in these crops will expand rapidly. The larger buying power of these farmers will in turn provide better near-by markets for the products of Southern industry. Machines to chop and pick cotton, set and cultivate truck crops, and harvest various specialized products, will be improved and perfected. As farm labor becomes more costly, less human labor will be used and more reliance will be placed on draft power and machines. Each man will handle more land. Some of the families will move to industrial centers to work, or will commute. The families that stay on the land will each handle a larger area. The children will spend more time in school or recreation, and less time in back-breaking hand labor in the fields. With larger farms, more acres handled per man, and more machinery, the output per man will gradually increase. Incomes per farmer will rise, tenants' incomes will increase, and farm labor wages will rise.

The Industrial Expansion program will thus improve the lot of the farm laborer, North and South, even though it

makes no attempt at direct regulation of his wage. By creating a demand for labor in other occupations at rising levels of pay, it will drain off men from farm work. By creating rising demands for farm products, it will increase the demand for labor on farms. Rising farm income and farm wages will result. The higher wages in turn will stimulate more economical use of labor and increased output per farm worker. As still more men are drained away to industrial work, the productivity and pay of those remaining on the farms will tend to rise toward the levels of those in industrial work. Competition for men will thus ultimately put a firm bottom below farm wages.

Industrial Expansion thus offers a promising method for aiding the farm laborer. It will aid him by attacking that half of the farm problem which is yet unsolved. The A.A.A. has made good progress in solving the half of the problem that lies in farmers' hands—the adjustment of supply. The A.A.A. can do little to affect or influence the other half, the increase of demand. That half lies in the cities and the industrial regions. Only a program that can influence the volume of industrial employment can solve that half of the farm problem. Industrial Expansion, or some parallel program to really bring about a continuous and persisting increase in industrial employment and production, is needed. Only such a program can simultaneously solve the twin problem of low incomes on the farm and unemployment in the cities. If and when Industrial Expansion is attempted, farmers and farm laborers will have as vital a stake in its success as will city workers.

## XX

*Will housing be provided for?*

If Industrial Expansion is to work, it must expand house construction. Housing, together with other forms of construction, is one of our most important city industries. Many different products go into a house, such as lumber, cement, plaster, bricks, wire, structural steel, nails, glass, hardware, pipe, plumbing fixtures, heating and electrical equipment and fixtures. The manufacture of these products, their shipment by rail or water, and their merchandising and sale, make jobs for millions of men when building is going strong. Many other men work in planning and constructing houses, including architects, contractors, carpenters, bricklayers, plumbers, electricians, plasterers, and building laborers. When construction is at full levels it provides jobs, directly or indirectly, for one-fifth to one-quarter of all our city workers.

Besides being one of our biggest city industries, construction is one of the most variable. House and apartment construction in particular shows recurring cycles of high and low production of astonishing amplitude. These cycles last over many years. In 1918 housing construction was at a low point in the cycle, with only 241,000 new housing units built. (A unit is a house or apartment for a single family.) From then on housing construction increased steadily to 1925. In that year it had a peak of 937,000 units built, or almost four times as many as at the low. Then house construction declined, slowly until 1929, and rapidly

thereafter. The low was in 1933, when only 54,000 units were built, or but one-seventeenth of the previous peak. After 1933 there was a gradual upturn to 1937, when rapidly rising costs of building checked the recovery.<sup>1</sup> During 1932, 1933, and 1934 fewer housing units were constructed each year than were destroyed by fire or other causes. Meanwhile population growth and marriages are increasing our number of families by about 400,000 each year. In consequence of our failure to build for so many years there is now an accumulated shortage of at least 2,000,000 houses. Even if nothing is done to replace the inadequate houses in which so many of our people live, a large volume of construction is necessary to provide for the continuing increase in the number of families and to gradually make up the accumulated shortage. The potential demands thus justify a great increase in activity in house construction.

If Industrial Expansion is to increase our total of industrial activity to anywhere near capacity, it must bring about a substantial recovery in housing. Too much of our industrial activity depends on housing to get full employment without housing also going strong. In mid-1937 industrial production was back up to within 7 percent of the all-time high of 1929. Yet there were still six to seven million potential workers unemployed in the middle of 1937. The fact that housing was still far below normal was one reason for that continuing heavy unemployment.

In other major industries, Industrial Expansion will operate through expansion programs prepared by the industry. These programs in turn will be crystallized into

<sup>1</sup> David L. Wickens and Ray R. Foster: "Non-Farm Residential Construction 1920-1936," National Bureau of Economic Research Bulletin No. 65, September 15, 1937, for estimate on number of units built.

underwriting contracts between the individual concerns and the government. The contracts will definitely provide for the programmed expansion in output, activity, and jobs.

In most of the other major industries there are a few big corporations which dominate the industry. Even with all the small corporations added in, 100 to 300 concerns account for practically all the production in each of most major industries. But in house construction there are no big concerns at all. In fact, we practically have no organized house construction industry. Construction of single houses is hardly past the state of industrial progress that men's clothing was when every suit was made separately by a tailor, cut especially for the individual wearer. In housing, we have architects who plan houses, speculators who put up the money to build one or ten or sometimes twenty houses at a time, builders or contractors who bid on the plans prepared by the architects, and subcontractors who bid for the separate parts of each job, and hire the labor to do the work. The architects who plan the houses have little or no contact with the problems faced by the subcontractors and their laborers who actually carry out the plans, so there is little progress in erection methods. The whole business is characteristically very small-scale and haphazard, with relatively little effort to systematize work or develop more efficient methods.

As matters now stand, it would be impossible for the builders of the country to contract with the Industrial Expansion authorities to increase their operations by any given percentage. The builders do not build houses like the automobile companies build cars. They are only fabricators, building on order as individuals or speculators give them the opportunity. Left to themselves, they would have neither the finances nor the experience to launch out on any

large agreed program of housing expansion.

To meet the difficulties just mentioned, the Industrial Expansion plan provides for especial action in the housing field. Instead of leaving it to the housing industry to expand house construction, it provides for the creation of a new Federal Housing Corporation. This corporation will work with the housing industry to prepare desirable programs for expansion of housing construction. As compared with 285,000 units built in 1937, if Industrial Expansion were begun immediately, it might provide for 350,000 to be built in 1939, 500,000 to be built in 1940, 600,000 in 1941. The annual rate would increase until the desirable rate for continuous operation was attained. The program will show how many new housing units are to be built in each region and locality, and how many are to be built in each price-range. State and city planning boards will assist in preparing these housing programs, to insure that the new houses are planned for where they are going to be needed. The Federal Housing Administration, the United States Housing Authority, the Home Owners Loan Corporation, and other housing agencies would be drawn on for technical advice and aid in preparing the housing program.

After the housing program is worked out for the year ahead, individual investors and speculators will be called in to determine what part of the program they are prepared to finance themselves. In any area where the amount of construction which private concerns or low-cost housing authorities are ready to undertake comes up to the full planned volume, the job will be left to them. Contracts underwriting the proposed volume of housing will be signed with the concerns or individuals, just as contracts will be signed with concerns in any other expansion pro-

gram. In any area or city where private parties or existing public authorities are not prepared to undertake the program as planned, the new government agency will undertake it itself. The agency will either let bids for the additional houses or apartments to be built, or will build them itself, whichever is more advantageous. After the housing is completed, it will either sell the houses at cost plus normal overhead, or will rent them. The rents will be adequate to cover all costs, including amortization and interest. In either case it will make payments to local governments equivalent to the taxes that private parties would be liable for on the same operation.

This positive program will insure steadily increasing activity and sales in all the industries dependent upon housing. By giving them an assured market for their products, it will enable them to sell at reasonable prices and yet make good profits. Even though housing volume increased in 1938, it was still below normal levels. Costs are high, both for materials and labor. Many materials, plaster, structural steel, cement, and glass, for example, have been selling at prices materially higher than in 1929. The volume of construction is so low that the concerns are making few sales and are operating at only a fraction of capacity, while in many areas building workers are finding only a few months work each year. The building material concerns are losing money despite the high prices, and the building workmen and craftsmen are in want despite the high wage rates. If building were running at full blast material manufacturers could sell at lower prices, and union laborers could work at lower rates per hour, and still make much higher profits or income than they now make. But each one argues, and rightly, that merely to reduce the price of their product or their labor, by itself, would not insure a

compensating expansion in volume. Any one interest that cut by itself would merely get a still smaller income.

In building, as in so many other parts of the industrial system, collective or joint action can do things that individual action cannot do. All elements in building could jointly reduce costs, and so produce houses cheaply enough that they could be sold in large numbers. But as the industry is now organized it has no way to achieve this joint action and break the deadlock. The Federal Government has aided cheaper financing through F.H.A., but industry action to organize construction on a more rational basis is still lacking.

Industrial Expansion provides a way to get action in building. The expansion program for housing will be coordinated with the expansion program for each major building material industry. The programs for each building material will provide for the expansion in production necessary to build the planned number of housing units. In return for the guaranteed expansion in the market for its product, the building materials that are too high will be reduced in price under their industry program. Assured of full-volume sales, building material wholesalers and retailers will be able to reduce margins and yet make larger profits. In return for the guaranteed expansion in jobs, and the assurance of continued activity through the year, building wage rates can be reduced in some cases, yet the men will earn far more income per year. As building activity increases further, so that full activity through the year is needed to fill the program, annual wage agreements can be developed for many types of labor. Unions which have seen their men have so little work that even at \$1.50 or \$1.75 per hour they earn less than \$1,000 a year, will be quite willing to have their men employed on a guaranteed annual



wage of \$1,800 or \$2,000 a year for 11 months' work and one month vacation. They will agree to that when they are given assurances that the jobs are there to employ their men. That will be a sure income per year higher than most of their workers have ever earned before. As the industrial programs carry production still higher, and as pre-cutting, prefabrication, and relaxation of restrictions on output greatly increase the output per building worker, the minimum annual wage for building workers can gradually be advanced still further, to \$2,500 and eventually even to \$3,000 or higher.

There are still other advantages that this assured volume of building can yield. In England, under government stimulation of housing, great progress has been made in the production of houses on a mass-production basis. Large corporations have grown up. These corporations lay out and build whole communities in a single undertaking. Several of them build as many as 5,000 housing units a year. As a result of the economies of such mass construction, costs have been greatly reduced, regardless of whether the houses are sold or rented. It has been reported that a house that cost almost 1,000 pounds when this program was just getting started is sold at a profit today at 400 pounds.

As yet no similar large-scale construction of houses has been developed in this country by private industry. But the way for such a development has been pioneered by the government. When the Rural Resettlement Administration was transferred to the Department of Agriculture, Secretary Wallace established a policy that no homes should be constructed which cost, on the average, more than \$1,200 in the South, or \$2,100 in the North. Two army engineers were put in charge of operations under that policy. They have developed methods of mass production and

erection which have made it possible to build a sound, roomy house within those limits. In doing that they had their architects and engineers develop plans that use exclusively standard lengths and sizes of lumber and other materials. Room plans were designed to fit materials, instead of wasting materials to fit room plans. Construction designs were developed which show the exact size and location of every bit of framing in the house. Each piece has its own number. The cutting list shows the size of each of these designated pieces, exactly the size of the stick of lumber to be bought to cut it out of, exactly how the end is to be beveled or cut, and how many pieces are needed in each house. A small mill is set up on each project, and the pieces for the 10, 20, or 30 houses being erected are cut out and tied up in bundles for each house. Instead of having enough lumber left over to run the fireplace for a couple of years, as is frequent on a new house, there's only about enough waste for one good fireplace fire. In bad weather the men work in the mill cutting the lumber, or inside the houses that are already roofed, in good weather they put up the new houses from the pieces already cut, numbered, and bundled.

This system of pre-planning house erection has not meant the standardization of the finished product. One single base plan may produce eight to ten distinctive houses, by different placing of the porches and dormers, and by facing the house in different directions. Use of six or eight different base designs can provide 50 different houses, which is ample for variety in a community of 100 to 200 houses.

The technique of pre-planning has been evolved gradually. Each design is studied and built many times. Suggestions from the foremen and laborers are studied to save time, motion, and cost. Sometimes shifting the location of

a post six inches may save a half-hour in erection. In one design, 200 different houses were built before the design was perfected, and it is still subject to change.

Nearly 5,000 houses have been built by the Farm Security Administration during the past year from such plans. (That is the new name for the Resettlement Administration.) The method has been developed so far that total costs have been cut 20 to 30 percent below conventional methods. Paying union wage scales, and using first-grade lumber, complete 5-room houses with three bedrooms are being built for a cost (excluding land, profit, and overhead) of \$2250 in frame, or \$2430 in brick. These are not tiny skimpy affairs, but good-sized well-built houses, with living rooms 12 feet by 21 feet, and bedrooms 12 feet by 12. If these houses were built in such large numbers that annual wage agreements could be worked out for the labor, still further savings could be made.

What this experience shows is that good substantial houses can be built, including land, overhead, and profit, for a final cost of not over \$3,000 to \$3,500. That means that the same men who build the houses can afford to live in them. When that is done on a large scale, Americans can use not two or three million new houses, but 10 or 15 million new houses.

Parallel experiments in methods of low-cost construction are being conducted by private concerns interested in housing, especially producers of building materials. The National Small Homes Demonstration, financed largely from such sources, has spent over \$10,000 developing standard plans for a 4-room house that can be built and sold for \$3,000, including land and overhead. These plans are just moving into the stage of tests in actual construction. Several large concerns in the building material field are experi-

menting individually at their own expense with various types of low-cost housing. Lumber manufacturers have been cooperating in a joint effort to develop plans for the complete unit sales, by lumber or building material dealers, of all the materials needed to erect a house from their standard plans. This will simplify the purchasing problem and reduce the selling expense. They are educating their dealers to this new method of selling. Meanwhile many concerns are experimenting with pre-fabricated houses of many types. In most cases these are based on factory fabrication of panels or other wall units, complete with doors, windows, wiring, etc. all installed, and of kitchen and bathroom walls or units complete with all utilities and plumbing ready to be screwed together. Cement, wood, plywood, steel, and other materials are being experimented with as the basic materials for these panels. Out of this great mass of experimentation with new low-cost methods some improvement in general building practices and reduction in cost has already come. All of these methods are based upon careful advance planning of details and the use of repetitive processes to reduce labor costs. Actual large-volume operation would also open the way to purchase of materials in car-load lots, trucking direct from the car to the operation without intermediate trucking and storing at the dealers' warehouse or yard, and in other ways would reduce dealers' gross margins which now frequently exceed the factory price.

As soon as any agency, such as that suggested here, provides an assured market for large numbers of houses, quantity production will be possible on the basis of these existing experiments. Actual tests in quantity production and determination of consumers' preferences among the resulting varied products will then gradually sort out the most effec-

tive methods and processes for low-cost housing from the many now in the blueprint or experimental stage.

On another front the U. S. Housing Authority, in co-operation with local housing authorities, is pioneering in reducing costs for multi-family dwellings. By careful planning and elimination of fussy details, and by the cooperation of large construction concerns in taking all possible advantage of cost reductions through large-scale operations, the building cost for apartments in New York City has been reduced from the \$1250 per room permitted in the law to \$850 on the first contract let. In smaller cities it is expected that costs can be cut to \$700 per room, instead of the \$1,000 permitted in the law. This experience in building for publicly-subsidized construction can also be applied to reduce costs for unsubsidized apartments.

Few people realize that our housing industry has never catered to the mass of our people. About half of our people pay rents ranging from \$10 to \$30 a month.<sup>1</sup> That means roughly they can live in new houses only if those houses could be built at \$1,000 to \$3,000 apiece. Even when the minimum income is raised to \$2,000 a year as a result of several successive years of Industrial Expansion programs, men receiving such a minimum wage will be able to spend only about \$35 or \$40 a month for rent. How many houses are built to sell (including lots) for \$3,500 or \$4,000, or to rent for equivalent rates? Today four-fifths of our new urban houses are built to sell at over \$4,000.<sup>2</sup> It takes a family income of \$2,000 a year or more to live

<sup>1</sup> This was true in 1934. In that year, in 64 medium-sized cities, 63 percent of all rented houses were in the \$10 to \$30 group. See "Real Property Inventory 1934, Summary and Sixty-Four Cities Combined," U. S. Dept. of Commerce, Bureau of Foreign and Domestic Commerce, 1934.

<sup>2</sup> This statement is based on the appraised value of single-house units qualifying for F.H.A. loans.

in such houses.<sup>1</sup> Only one-quarter of our non-farm families have incomes as high as that.<sup>2</sup> Four-fifths of our building is in a price class that only the top quarter of our families can afford. In houses, we produce largely Buicks, Packards, or Rolls-Royces, while our people need Fords or Chevrolets. When our houses are worn-out and ramshackle, at third, fourth, or fifth hand, they descend to the poorer groups to occupy. That does not give them decent housing any more than a worn-out Cadillac gives low-cost transportation. Houses that are built so efficiently that the men who build them can afford to live in them will help remake the face of America. They will abolish our slums, in cities, villages, and open country.

The large volume of housing which Industrial Expansion will guarantee will make possible rapid strides in the development of a large-scale housing industry. Some of the progress may be made by the Federal Housing Corporation, building well-planned model communities itself on a mass-production basis. Some may be made by large private corporations, set up to build in the large volume that the public corporation will stand ready to contract for. And some may be made by the men already in the building and contracting field, expanding their operations year by year under contracts with the public agencies or for private investors, or from their own gradually expanding capital.

In the housing field, Industrial Expansion will provide an immediate and continuing increase in the volume of construction. This will insure steady markets for the product of many other industries. It will enable the industry to provide less expensive houses, through securing the econo-

<sup>1</sup> See "Financial Survey of Urban Housing," U S. Dept of Com, 1937.

<sup>2</sup> The exact figure, for 1935-36, was 76.8 percent of the non-farm families. See "Consumer Incomes in the U. S.," National Resources Committee, pp. 97, 101, 1038.

mies of full operation. But even more, it will stimulate developments in the mass production of houses which will eventually provide all our lower-income groups far better and more comfortable homes than they have ever enjoyed.

New furniture, new rugs, and new fittings will follow new homes, and provide a large and expanding volume of useful work for years or even decades ahead. Our workers will be comfortably, securely, and respectably housed, and fully occupied. The social unrest which produces revolution or other violent change will not be present in such a population.

## XXI

### *Will railroads cooperate in Industrial Expansion?*

Railroads are important in our industrial system in many ways. They perform an essential function in transport. They are great employers of men. They are among the most important purchasers of coal, steel, and railroad equipment. The volume of their traffic is one of the most sensitive thermometers of the industrial health of the nation. As carriers of goods and men, as employers, as purchasers, no program for economic organization would be complete unless it made proper provision for the railroads' place in it.

For years railroads have been subject to many forms of public supervision and regulation. In bringing them into cooperation with Industrial Expansion, there is no problem of the right of government to intervene in the affairs of the rails. The only problem is how the existing methods

of intervention and the existing public agencies of control can be made to work most effectively under a program of conscious industry expansion.

Public control of railroads in the past has been ineffective both because it has been divided and because it has been operated without any clear lines of general economic policy. The Interstate Commerce Commission has had control of rates and service, but has lacked authority over the holding companies and investment banks which have for years had a strange hold over most of the important carriers. The National Mediation Board has been responsible for settling disputes between management and labor. The Railroad Retirement Board handles employee pension matters. The R.F.C. has extended financial help to keep railroads out of bankruptcy. Between them, railroad rates have at times been increased in time of depression, when the welfare of the country demanded that they be decreased. Wage changes have been set without regard to whether traffic could stand higher freight rates. In bad times the roads have stopped buying new equipment and have pinched to the bone on maintenance. In good times they have bought frantically to meet the demands for service, intensifying the boom expansion. The variability in locomotive purchases has already been shown.<sup>1</sup> Unplanned and uncoordinated railroad policies have thus contributed to our economic instability as a whole.

The general outlines of the relations of railroads to Industrial Expansion are clear. Railroads have capacity to handle a freight and passenger traffic far above what they are now carrying. As their traffic volume increases, their income will go up much faster than their operating expenses. They will have a much wider margin out of which

<sup>1</sup> Note Chapter II.



to buy new equipment, pay interest and dividends, and hire more men. If they operate to full capacity, they could even reduce rates somewhat and still make very satisfactory profits. The problem under Industrial Expansion would be how to figure out the rail program in advance as an integral part of the general program of expansion, and as part of an integrated system of transportation covering all common carriers. If that is properly done, the increase in rail employment, the reduction of freight rates, the increase in the purchase of freight cars and other rolling stock and of rails and other material for roadbed rehabilitation, could all go into effect simultaneously with the first expansion program. They would contribute their share to the general over-all expansion in industrial activity. Existing railroad problems such as overcapitalization, duplicating rights of way, bankrupt roads, and the whole problem of consolidation, reorganization, and writing down the rail capital debt where it is impossibly large, would still remain for solution. Industrial Expansion could hardly undertake to solve all these problems inherited from the past. Some of them would become less serious as a result of the expanding activity that would be produced. Those that did not would have to be solved on their own feet, independent of the general industrial program. But enough big roads would be put into sound condition by expanding traffic to cooperate with Industrial Expansion, and to insure the success of the general railroad program for expansion.

The fact of the dependence of the roads on volume is very clear. With the shrinking business activity after 1929, the operating revenue of the roads fell from \$6,373,004,000 in 1929 to \$3,168,537,000 in 1932. Meanwhile operating expenses were reduced from \$4,579,162,000 to \$2,441,814,000. Revenues fell 3.2 billions and expenses were cut

2.1 billions. After paying taxes, the net income shrank from nearly 1000 million in 1929 to a deficit of 122 million for 1932. During the recovery after 1932, the process was reversed. Between 1933 and 1937, operating revenues increased over a billion dollars while operating expenses went up a little over 700 millions. The net income went up from a deficit to a profit of 146 millions.<sup>1</sup>

The recovery in profits was achieved even though freight rates were high compared with other prices, and even though trucks were constantly taking away more and more of the traffic, especially the more profitable less-than-carload movement. If the roads could get their rates into more reasonable levels compared with the competitive truck costs, that would give them a larger expansion of traffic from the general industrial expansion than they secured from the recovery after 1932.

In the use of labor, the roads have made great strides in increasing efficiency. With longer trains, more powerful engines, and faster schedules, they increased the average amount of traffic handled per man by 32.8 percent between 1926 and 1936.<sup>2</sup> The average traffic output per man-hour worked went up 34 percent, in the same period. Meanwhile labor costs per unit of traffic declined only 14 percent. The gains in efficiency therefore did not mean proportionately lower labor costs. There are long-established union rules under which the men in the operating service are paid on the basis of the number of miles travelled, the number of cars handled, etc., so that the higher speed and larger volume per man-day has not meant corresponding reductions in labor costs per unit of traffic. Peculiarly enough, it has

<sup>1</sup> Interstate Commerce Commission, "Annual Report on Statistics of Railroads," statement 53, 1937

<sup>2</sup> *Monthly Labor Review*, July 1937, pp 80 and 85.

not meant much gain in average income to the men, either. Instead, it has meant mainly that they get through the usual month's work in a fewer number of days.

Given a sure expansion in traffic, such as Industrial Expansion could guarantee to produce, there is obviously place in the railroad situation for a bargain as to the division of the gains in efficiency and activity. This bargain would be to the mutual advantage of the carriers, the employees, the investors in the rails, and the general public, all at the same time. The elements of this division could be along the following lines:

(1.) The roads would undertake to employ more men, as a result of the larger traffic they were sure to have.

(2.) The roads would also undertake a specified increase in maintenance and purchase of new equipment, to provide for the expansions ahead.

(3.) The operating unions (for road, train, and engine service) would agree to a modification of the existing working rules, under which each man would work full time. He would receive more pay per week, but in some cases less pay per hour or per mile than he had received before. The increases in hours would be so calculated that, with the programmed expansion in traffic, more men would be employed on most lines, and no man would be laid off anywhere.

(4.) In return for the assured volume and the reduced wage cost per hour, the roads would agree to a substantial reduction in freight rates, to a point where they would have a reasonable relation to the level of commodity prices. With the increased traffic, of course, the railroads would still get a greatly increased revenue, even with the lower rates.

Working out a general program of this sort would in-

volve a large number of compromises between the several interests involved. It is possible that the necessary arrangements could be worked out by some joint conference of the existing railroad governing bodies, including the carriers and the labor unions from the industry, and the I. C. C. and the National Mediation Board from government. If the office of Coordinator of Transportation is reestablished, he also would obviously have a place in the picture. It might be more practical, however, to set up a formal Industrial Authority for the Railroads, just like the authorities for the other major industries, and to authorize the I. C. C. and the other regulating bodies to participate in its discussions. Even after expansion programs were prepared for the railroads and other transportation agencies, they would have to be checked against the programs of other major industries by the central Industrial Expansion administration, and modified when necessary to fit into them.

The program outlined above may be too far-reaching to be realized in the first year's program under Industrial Expansion. Management might be unwilling to concede reduction in freight rates, and labor might be unwilling to agree to the readjustments in working conditions, until each could see how much new traffic and employment would be produced by the industrial expansion. In that case the contribution that lower freight rates would make to enlarged activity would be lost. Both the total volume of industrial activity, and the proportion of it reflected in rail movement, would be somewhat lower than otherwise. A larger part of the newly-stimulated traffic might move by truck, pipe lines, or other facilities, and the rails feel only a partial gain from the general expansion program. That would repeat what happened in the recovery from 1932 to 1937. Freight rates were maintained at substantially predepress-

sion levels. Industrial production increased by 72 percent, while railroad carloadings increased by only 39 percent.<sup>1</sup> Hardly more than half the increase in industrial production was reflected in increased freight traffic over the rails. In view of this previous experience, it would seem to be the part of long-viewed statesmanship for both railroad labor and railroad management to do all they could to work out a rail program of the sort first suggested. If they do not do that, they will be losing some of the most substantial and continuing gains that Industrial Expansion might provide for the rails.

Industrial Expansion will thus provide an opportunity for the rails to maintain their place as the prime transportation agency of the country. The definite and continuing expansion in industrial volume will offer them an opportunity to put their rates at levels that will attract an increasing proportion of the traffic. It will offer operating labor an opportunity to readjust working conditions to a fairer basis, without danger of reduction of employment. Earnings per hour may be reduced in some instances, but pay per week and per month will go up for all rail employees. With labor and management thus cooperating, the railroads will have an opportunity to reduce both costs and rates, increase volume, and increase the earnings of the roads. The program of positive expansion of industry can thus serve as the central key to solve many of the most difficult problems of the rails. The larger the extent to which those problems are solved, the faster the speed at which the whole national program of rising production and pay rolls can move.

<sup>1</sup> The data are as follows, with 1923-25 = 100.  
Industrial Production, 1932, 64; 1937, 110.  
Freight carloadings, total, 1932, 56; 1937, 78.

Even with Industrial Expansion, other special steps may be needed to meet the railroad problem. The railroads have faced increasing difficulties ever since the World War. Inadequate to handle the wartime traffic, their facilities were greatly expanded after 1922 to meet what they anticipated would be continual expansion in our national economy thereafter. With the increased competition from other carriers and the lower level of industrial production during the past decade, they have found it impossible to pay the costs on their increased investment. Studies by the Railroad Coordinator and others have shown that with the fall in traffic, the trackage and other rail facilities are apparently in excess of those needed. As one means of reducing maintenance and operating costs consolidations have therefore been recommended, even though it is recognized that such consolidations might displace additional thousands of workers. So far efforts to bring these consolidations into effect have not succeeded. In the new depression of 1937-38 all these past difficulties of the industry came to a head and many roads were threatened with bankruptcy.

It is becoming to be generally believed that public ownership and operation would prove to be the only satisfactory solution to the railroad problem. In most of the other countries of the world, railroads are already publicly owned and operated. The time may not be far distant when it will seem just as natural to Americans for the government to run the railroads as it is now for the postman to be a government employee. Even under public ownership, though, the railroads would still be faced with the problem of paying wages and meeting interest on the investment. They would still find that they had a vital stake in the industrial welfare of the country. This chapter has already set forth how the planned expansion in industrial activity, and the coordina-

tion of railroad rates, charges, and activity with these expansion programs, would simplify the railroad problem. These advantages could be secured even more readily by having a publicly-owned railroad system cooperate in Industrial Expansion. The assured increase in the volume of traffic which Industrial Expansion would create would make it easy to carry through the consolidation of facilities. The men displaced in closing down unnecessary lines or terminals would be given new jobs handling the increased traffic elsewhere. Public ownership and Industrial Expansion are not alternatives, so far as the railroads are concerned. Each would reinforce and supplement the other.

Regardless of whether they stay as they are now or shift over to full public ownership, the railroads are ready to operate under Industrial Expansion. They are used to government regulation and control. They are used to advance negotiation and planning of rates, services, and wages. But what they are not used to is planning the volume of traffic those rates will produce. They are not used to thinking of their wage, rate, and investment policies in relation to the welfare of the country as a whole. In forcing the rails, along with all the other major industries, consciously to face the bearing of their own policies on the welfare of the whole nation, Industrial Expansion will provide one of its greatest services.

## XXII

### *How will the utilities be affected?*

The utilities as a group are in somewhat the same position as the railroads, in that they are already under a considerable

degree of public regulation and control. In some cases water systems, local transport, or electrical generation or distribution are under public ownership. The problem with the utilities is how their activities can be correlated with Industrial Expansion, in view of the public control or ownership which already exists.

Many of the utilities are primarily local or municipal in character. These include street transportation systems and water and gas systems. The total volume of their operations reflects local industrial activity and the buying power of the local public to greater or less degrees. Their planning problems are primarily local in character, and are related to the growth and development of individual communities. These in turn depend in part at least on the activity or growth of their principal industries. It would probably not be necessary for Industrial Expansion to concern itself directly with these local problems. After the national programs of expansion had been drawn for the major industries, the city planning boards and city public utility commissions could prepare local plans for keeping their local public utilities abreast of the expansion in that community which the national programs would produce. This coordination of national and local plans would be especially important with reference to providing utilities for proposed housing developments, under the general housing program of Industrial Expansion.

The remaining utilities, however, have interstate and national significance as well as local. These include the communication utilities, telephone, telegraph, radio, and the postal service; and the electric utility industry. The national interest in these utilities has been expressed by the creation of special federal agencies to deal with them, the Federal Power Commission, the Federal Communications



Commission, and the Federal Radio Commission, and by the powers over the utilities given the Securities and Exchange Commission. The Post Office Department, operating the postal service as a federal monopoly, is taken for granted. The T.V.A., experimenting with public ownership of electric generation and transmission in one area, is still a center of hot political debate. The Rural Electrification Administration, helping farmers to establish cooperative electric distribution lines, has been less in the public eye, but is making a major contribution. Since its establishment it has brought electric service into 350,000 to 400,000 farm homes, or 30 percent of all the farm homes of the country which are now receiving electrical service.

In addition to the complex series of federal agencies, the electric and communication industries are also subject to regulation by state, and in many cases by local utility commissions. The interstate network of the utilities has vitiated much of this local control in the past. This network includes physical facilities, such as long-distance phone connections and telegraph wires, and high-voltage electric transmission lines. It also includes an even more intricate set of business relationships, building up to the American Telephone and Telegraph Co., on the communications side, and a bewildering array of series of superimposed holding companies, on the electrical side. Under the utilities act and the recent Supreme Court decisions sustaining it, the complex of holding companies is now in the process of being unscrambled, at least to a certain degree.

Industrial Expansion will greatly increase the demands of industry for the services of the utilities. It will also greatly increase the demand of consumers for those services in their own households. To meet those demands the utilities will need to increase their current operations, employing more

people and disbursing larger pay rolls. In addition, they will need to start installing more equipment, to prepare for the increasing demands that the expansion programs for subsequent years will produce. For example, as much as two to three years will elapse between the time the decision is made to build a new plant and the time it is finally completed and the generators are ready to meet the demand. Industrial Expansion could not maintain a rapid rate of increasing output over several years unless the utilities made prompt preparation to install the new capacity to meet the programmed future demand. At the same time these programs of the utilities for expansion would have to be taken into account in preparing the immediate programs for the steel, cement, electrical equipment, and other related industries.

Preparing advance programs for the future would be no new experience for the telephone industry. It already has a statistical research and planning department that is probably the finest of that in any American industry. Through the work of this department, it has long operated on a consistent long-time program, with a relatively stable rate of plant expansion year after year, adjusted to the local growth and needs of each city or community. All that would be necessary to draw expansion programs in this industry would be for its existing planning department to cooperate with the Industrial Expansion Administration, so as to base its forecasts of phone needs upon the programs of industrial expansion, national and local. These plans could then be considered by a Telephone Industry Authority, on which labor and the several government regulatory bodies were also represented, to work out the wage and rate policies that would be consistent with the increased demand and output.

One reason why capital expansion has been better planned and more evenly carried out in the telephone industry is because of its close affiliation with the Western Electric Company. Manufacturing much of its own equipment, it does not pay the American Telephone and Telegraph Company to keep its equipment plants idle much of the time, and then to operate them at twice the average the rest of the time. Instead, it maintains only about as much plant to build equipment as, operating steadily, can keep it supplied with new equipment year after year. The electric utilities, on the contrary, have not worried if their erratic orders for new equipment meant that the General Electric Company was running at top speed part of the time, and was nearly idle at other times. A second factor favoring long-range planning by the American Telephone and Telegraph Company has been the presence of a heavy proportion of equity capital. The utilities, in contrast, frequently have a heavy bonded indebtedness, and so have been less able to expand their plant above that which is sure to yield a satisfactory return in the immediate future.

In the electric utility industry, planning is far less common than in the telephone industry. As has already been pointed out, the electrical utilities have shown even more violent changes in new capital installations than industrial concerns have shown. It would probably be necessary to create a separate Electric Utility Authority, both to prepare the programs of expansion for this industry, and to secure unity of action among management, workers, the Industrial Expansion administration, and the many federal and state regulatory bodies. How many of the regulatory bodies would be represented, and how much weight they could have in the discussions, would have to be worked out by experts in this field. The programs would show the in-

creases in employment, pay rolls, and profits, and the reductions in rates, which could be made with the assured expansion in sales. The programs of expansion would also give attention to the long-time programs of plant expansion, as well as the immediate programs for larger output and larger employment. The electric utility industry ordinarily spends between a half billion and a billion dollars annually on additions to capital equipment. Continued growth at this rate may be necessary for many years into the future, though after a time the rate will gradually decline. The plans of such an industry are obviously of great significance in any program of planned industrial expansion. Stabilizing and regularizing the annual capital outlays of this industry would go a long way towards preventing business cycles under Industrial Expansion.

The Post Office is also a great utility, employing 258,000 men and women. They perform one of the essential service functions for the community. Changes in national income are followed by more than corresponding changes in the demands for postal service. Between 1923 and 1929, for example, the national income paid out to individuals increased 19 percent. For the years immediately following, 1924 to 1930, postal revenues increased 23 percent.<sup>1</sup> Since postal rates were not changed in this period, that meant that the volume of mail increased slightly faster than the volume of physical production. In preparing the programs of Industrial Expansion, the Post Office Department would be called in to prepare its program of corresponding increased volume and increased employment. With the increased volume of business, which would follow greatly increased national income, it might find it possible to restore the 2-cent rate on letter postage, as an aid to business and con-

<sup>1</sup> Annual reports of the Treasury Department.

sumers. In view of the public nature of the employment, and the privileged status that postal employees already receive under Civil Service, their unions could hardly participate in drawing up the postal program with quite as much power as labor unions in private industry would have in the deliberations of their Industry Authorities. The postal unions would, however, participate as far as possible in drawing up the expansion program for the postal service. As wages were raised in private industries under their programs, especially in the lower-paid brackets, corresponding wage increases could be provided in the postal program, and submitted to Congress for its approval. The postal system, the greatest business enterprise of the federal government, could thus play its part in initiating and carrying through the program of Industrial Expansion.

The utilities resemble other industries in that a material expansion in industrial activity will give them great opportunities. Workers, management, investors, and consumers all will be able to gain from the increasing output and decreasing costs and rates that sustained larger demand will make possible. Utilities differ from other manufacturing industries, however, in that they are already subject to a conflicting maze of federal and state regulations and competition, on the one hand, and to an even more intricate maze of financial control through holding companies, on the other hand. Industrial Expansion cannot deal with the problem of simplifying the corporate structure of utility ownership and control. That problem will remain with the Securities and Exchange Commission, the Federal Trade Commission, and other agencies already charged with responsibilities in this field. On the side of economic policy, however, Industrial Expansion can help to create a single forum wherein all the business, labor, and public interests

involved can meet and resolve their difficulties. There they can share in the national effort to plan for larger production and larger consumption, and can adjust their own production, equipment, wage and rate programs to aid in this national effort. All the interests in the utilities can thus unify their own interests in a manner that will profit both themselves and the general welfare.

As a whole, the interstate utilities represent industries that have grown rapidly in the past. Electricity and telephones are still growing rapidly. There is room for great expansion for the utilities. Lowered rates will still further widen their potential markets. They are industries that use large quantities of elaborate equipment. Steady expansion of their equipment can both provide work for many men in other industries, and help create the facilities for more productive industry for the future. Balanced expansion programs for the interstate utilities, properly dovetailed into the expansion programs for other industries, will thus be a vital part of a national program of Industrial Expansion.

### XXIII

## *How will small businessmen fare under Industrial Expansion?*

There are about 2 ½ million individual business enterprises in this country not including farmers.<sup>1</sup> Banks, insurance companies, and other financial institutions make up 126,000 of these. A few hundred really big corporations do the bulk of the remaining business—somewhere between 300

<sup>1</sup> Data in this chapter from 1930 Census reports.

and 1,000. After subtracting these financial institutions and big corporations, over two million businesses are left that might properly be classified in the "small" category.

Most of the small businessmen run stores, retail or wholesale. There are about  $1\frac{3}{4}$  million wholesale and retail stores. Many of these stores are quite small. In 1929, the peak year of prosperity, one-quarter of the retail stores fell in the class selling less than one hundred dollars' worth of merchandise a week, and one-third of the wholesale establishments had less than a \$1,000 worth of sales a week. Nine-tenths of the retail establishments sold less than \$1,000 worth of goods a week and nine-tenths of the wholesale establishments sold less than \$10,000 worth of goods per week. Similarly in manufacturing, nine-tenths of the concerns fell in the class producing less than \$500,000 of products a year, and employing less than 100 men.

Out of all our businessmen,  $2\frac{1}{4}$  million fall in the smaller nine-tenths of retail and wholesale trade, and of the smaller manufacturing concerns. How will Industrial Expansion affect the welfare of these smaller businessmen?

The small merchants will benefit very directly in two different ways. First and most important, Industrial Expansion will put more buying power into the hands of their customers. Regardless of whether they sell mainly to farmers, miners, factory workers, or professional groups, the expanding national income produced by the steady expansion in the major basic industries will mean more work, more pay and more buying power for their customers. The volume of merchants' sales will rise, year after year. Prices will be held at reasonably stable levels, so that uncertainty and losses due to wide and sudden changes in prices will be reduced. Customers will buy more goods and better goods. With stabler markets and larger volumes, selling margins

might decline gradually, but the volume of sales will increase far more rapidly, and total profits will be materially better.

Second, competition in selling will be reduced. In these days of heavy unemployment, many people who have lost their regular jobs scrape together or borrow a little capital and open up a small store. Many of these stores fail. A constant stream of new people continue to take the places of those that fail. As a consequence, we have many more concerns trying to make a living out of selling than are needed to do the business. With low national income, there is a larger number of stores to divide up a smaller total volume of business. This excess capacity in merchandising began to appear before 1929, and with the heavy and continued unemployment has been chronic ever since. It is the major incentive to cutthroat competition and fly-by-night concerns. It has led small businessmen to try to reduce competition through legislation of various kinds, such as that against chain stores and the Robinson-Patman Act. Such legislation can help but little, however, so long as there is too little business being divided up among too many stores.

Industrial Expansion will provide a steady and continuing increase in industrial employment of all sorts. As more and more men are drained off into steady jobs and as pay rises towards better and better levels, there will be fewer men to open up new stores, and less incentive for them to do so. In fact, as pay rises towards a \$2000 minimum in factories, many small storekeepers will find it more profitable to shut up their stores and take industrial jobs instead. Judging from their total sales, half of the retail storekeepers in this country have never made as much as \$2000 a year net for themselves.



The effect of Industrial Expansion will thus be to reduce the number of concerns trying to make a living out of selling, and to increase the total volume of business done by them. Dividing up more business among fewer concerns will result in a very substantial increase in the amount of business done by each, and in their net profit.

As wages rise in factories, and as the number of unemployed decrease, stores will find it necessary to pay their employees more, and to give them better working hours. Most store proprietors will welcome the opportunity to do this. They do not now like to pay their help starvation wages or to work them long hours. They do it only because business is so poor that otherwise they would have to fire them. As business improves under Industrial Expansion, as housewives have more to spend and buy better goods, selling costs will go down. Customers will buy more at each purchase, and there will be more purchases. The store will be busy more of each day. Each salesman or saleswoman will have larger daily sales. Each can be paid better, and still the proprietor will make more money. In this respect stores are like farms. Wages are low in bad times, but business is so bad that income falls faster than wages, and profits suffer. In good times pay rolls and wages rise but total business rises still faster, and net profits increase. Even though Industrial Expansion will gradually make store clerks scarcer and increase their pay, store owners will not begrudge their employees this gain. They will recognize that larger business means more for all. The higher pay for their employees, and the larger profits for themselves, will represent merely each group's bigger slice out of the bigger pie of expanding national production.

There are, however, many problems of wholesale and retail trade which Industrial Expansion will not solve.

There is a constantly shifting tug of war going on between retailers, wholesalers, and manufacturers. Some manufacturers use wholesalers to handle the bulk of their sales. At the same time they want to sell direct from the factory to large retailers and large consumers. Wholesalers want to sell to all retailers, no matter how large, and to have the sole right to the wholesalers' discount. Retailers want the wholesalers' discount when they buy in large volume, either individually or through cooperative groups. Under N.R.A. there were many attempts by dominant groups to manipulate code selling conditions to their own advantage. Wholesalers tried to force manufacturers to keep them in the picture at all points, retailers tried to outlaw direct sales to consumers by wholesalers or manufacturers, manufacturers tried to prevent price-cutting by distributors.<sup>1</sup> The growth of chain stores, mail-order houses, and of giant markets has intensified these problems. It would be dangerous to the entire expansion program if Industrial Expansion attempted to enter this field of conflicting ideas and conflicting interests. Industrial Expansion will take no action one way or the other in these struggles. Under the Robinson-Patman Act the Federal Trade Commission is already passing upon certain aspects of this problem. Since expansion programs will not cover merchandising concerns, this problem will not arise directly.

The programs for manufacturing concerns will not be extended to cover the fair competition aspects of their selling organizations. Its solution will be left to the special legislation on the subject. The Industrial Expansion programs for each industry will not be codes into which the dominant

<sup>1</sup> See N.R.A. staff studies, *Trade Practice Experience*, "Control of Distribution" (mimeographed publication without date), and Federal Trade Commission, "Final Report on Chain Store Investigation," Senate Document 4, 74th Congress, 1st Session.

concerns can write their conceptions of fair competition. They will simply be programs for expanded production, together with such conditions as to increased employment, improved working conditions, higher wages and lowered prices, as are necessary to make the over-all expansion program workable. There will be no restriction on price competition, except insofar as the government underwriting agreement to take any unsold surplus at an agreed discount puts a bottom under the market. Business will not be able to legislate for itself, as it was accused of doing through the N.R.A. codes and code authorities. The expansion program will insure more business for all to divide up. What fair competition would be, and how it would function in selling, will be outside the scope of the Industrial Expansion arrangements. Industrial Expansion will thus avoid entering the maze of detailed problems that helped swamp the N.R.A.

Nine-tenths of all small businessmen are engaged in selling, and they will benefit very directly from Industrial Expansion. How about the remaining one-tenth, the small industrialists who run the smaller factories, machine shops, and other industrial concerns?

Some of these smaller factories are in major industries which will be covered by expansion programs. In such cases these smaller concerns will share all the benefits of the program. Their representatives on the Industry Authority will help draw up the program for the industry. They will be assigned quotas based on previous production, the same as the larger concerns. They will receive the same guarantee of government purchase of their output if they are not able to sell up to the quota. They will gain from the increased volume of business under the new program, from the widening market, and from the stabler prices re-

sulting from the planned and guaranteed operations. That does not mean, however, that every individual concern will be guaranteed profits. Where individual concerns have failed to maintain productive efficiency, have obsolete and out-of-date plant, or have tried to set up business in the wrong place, they may already be just on the verge of bankruptcy. If they cannot profitably produce an expanded volume of output at the price set by what the more efficient concerns agree to in the industry's expansion program, they will have to go out of business. Industrial Expansion will make no attempt to keep inefficient concerns alive, or to guarantee profits to every concern in the industry. It will still be the responsibility of businessmen, small or large, to keep up with the procession, and to see that their methods are kept modern and efficient and their costs low. If they do not do that, they will fail under Industrial Expansion just as surely as they have failed in the past.

In some major industries there are a few big dominant concerns, and many small concerns competing with them. In some of these industries the smaller concerns find themselves at a serious competitive disadvantage. The big concerns manage to work out understandings or agreements between them, as to production, prices, or sales, which the smaller concerns are frequently unaware of, and can only follow the leaders. Or else the larger concerns give secret discounts to favored customers, and so prevent the smaller concerns, following the quoted prices, from competing with them. Under Industrial Expansion, the facts as to operations in the industry will be put on the table in the discussions of the Industry Authority, and will be made available to both producers and customers. Once the expansion program is agreed upon, all concerns will be bound by its provisions. The unfair competitive advantages that

the big concerns have built up for themselves will thus be removed, and the smaller concerns will be given a better opportunity to participate in the business and growth of the industry.

There will be a danger that the operations of the Industry Authorities might develop some of the same injustices that the Code Authorities developed under N.R.A. In some cases a small group of dominant concerns ran the Code Authority. Sometimes there were four to six of these dominant concerns, sometimes only one or two. They framed the provisions of the code or the decisions of the Code Authority to weaken the position of their smaller competitors, and to get more of the business for themselves. Under Industrial Expansion each Industry Authority will draw up the expansion program for the industry and will allocate the expansion quotas among individual concerns. These functions might be exercised so as to favor the dominant concerns or interests. The central Industrial Expansion Administration will have to be vigilant to prevent such abuses. It will be open to appeals from minority groups in any industry where such practices are attempted. To check their development, the basic Industrial Expansion legislation should require that no expansion program for an industry can contain provisions that react unfairly upon small concerns or minority elements in the industry. Furthermore, it should require that each Industry Authority will base its allocation of quotas among individual firms on some definite mathematical rule, equally applicable to all concerns. There should be provision for court review when these requirements are not complied with. This will prevent arbitrary increases in the allotments to favored firms. There will still be room for dispute as to whether the mathematical base selected is fair to all. This too can be appealed

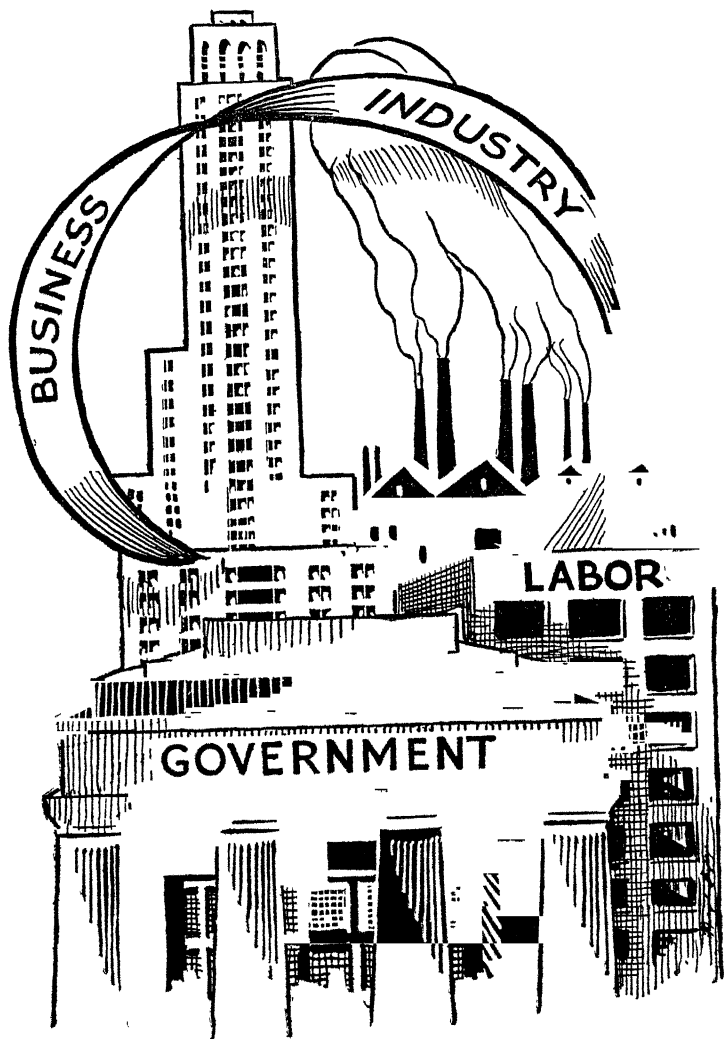
to the central administration and to the courts. Unfairness to small concerns, which so often crept in unchecked and unrecognized in the decisions and actions of the N.R.A. Code Authorities, will not be permitted under Industrial Expansion.

Many of the small industrial concerns are in minor lines which will not be covered by expansion programs. These would include men in service businesses, such as clothes pressing and cleaning, tailors, barber shops, and also other lines, such as newspapers and magazines, machine shops, garages, and many small miscellaneous manufacturing concerns. The effect of the expansion program on them will be much the same as upon stores. The demand for their products will increase with the general upsurge in business activity and in national income. Excessive competition in their business will be reduced by expanding opportunities elsewhere. The wages they pay will gradually be forced up. Their hours and conditions of employment will gradually have to be improved, to meet the better pay and better working conditions in other lines. This increased cost of labor will be more than offset by increased income.

Proprietors will be glad to see business so much better that they can take better care of their employees and still have more left for themselves. The average small businessman is not greedy. He is close to the men who work for him. He shares their troubles and their joys. During the long depression many small merchants and manufacturers dissipated all their reserves and even were forced into bankruptcy rather than discharge men who had worked for them all their lives. These same businessmen will be proud and happy to share with their employees the expanding income that Industrial Expansion will provide.

The program of Industrial Expansion, as a whole, is with-

out bias toward small businessmen. It will neither weigh the scales in their favor, nor discriminate against them. But the economic consequences of Industrial Expansion will be such that small businessmen will gain greatly from it. Small businessmen have borne the brunt of the excessive competition produced by the long years of unemployment and bad business. Small businessmen will benefit greatly from the expanding business and reduced strain of excessive competition. Big business will benefit too. There are gains for all in restored activity and full production. Small business, which has suffered most severely in the long years of depression, will gain the most in the long upward period of building and restoration under Industrial Expansion. No businessman, large or small, who heads an efficient, well-run concern need fear the effect of Industrial Expansion on himself or on his employees.



PART FIVE · ADMINISTRATION





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PART V

ADMINISTRATION

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XXIV

*Do we have the men and the facts to run  
Industrial Expansion?*

An economic plan may be ever so good, but it cannot succeed unless it can be administered effectively. The administrative problem of Industrial Expansion will be a staggering one. Before the first expansion program starts, much must be done. Expansion programs will have to be prepared for a number of major industries. Disputes over rates, prices, and hours will have to be settled on a workable basis. Methods of allocating quotas to individual concerns will have to be developed and approved. Complaints from individual concerns that feel themselves discriminated against will have to be heard and settled. Action will have to be taken to secure the cooperation of vital concerns, or industries, that refuse to cooperate voluntarily. Underwriting contracts will have to be prepared and signed. The whole success of the undertaking will hinge on the competence and the integrity of the administrative staff set up to perform these vital preparatory functions, both in the

central administration and in the several industry authorities. Then after the program is once under way, a whole continuing sequence of decisions and plans will have to be made.

Do we have the men competent to handle this gigantic task? Can we draft them for the job? Are statistical guideposts ready for their use? These are very serious questions. They involve the practicality of the entire proposal.

Some of the men who can direct and run national programs for Industrial Expansion will be found among the younger, more wide-awake men in business. Some will be found among professional students of industrial economics in government agencies and in colleges. Most of them, however, will have to be developed and trained specially for the job.

In the early days of the New Deal, many successful businessmen, or industrial "brass-hats," were called to Washington to head the various recovery agencies. Few of these men held their jobs. Other men have replaced them. These businessmen had been successful in private business. There they had to deal with limited problems involving the immediate welfare of their individual concerns. This business experience did not give them the imagination and the vision necessary to deal with a job 10 or 100 times as large as any they had ever confronted in industry. It did not fit them to handle matters of industry-wide and nationwide scope and welfare.

Some New Deal agencies developed effective administration despite this failure of their first leadership. The personnel aspects of A.A.A. are particularly significant. Despite its destruction by the Supreme Court, A.A.A. has risen phoenix-like from its ashes, and has continued to perform the same major functions.

To understand the administrative success of A.A.A., we have to go back to 1920. A red-headed fighter from the University of Wisconsin was called to Washington by the late Henry C. Wallace, father of the present Secretary of Agriculture, to help rescue American farmers from the postwar economic collapse. Henry C. Taylor pulled the old Bureau of Crop Estimates, Office of Markets, and Office of Farm Management together into one organization, the new Bureau of Agricultural Economics. He put it to work not only at collecting statistics, but also at analyzing those statistics to tell what they meant. They were interpreted to farmers to help them decide what to do about it on their own farms. People doing economic research work in the state agricultural colleges helped in the job. Out of this effort developed in 1923 the annual Agricultural Outlook Report. At first annually, and then later semiannually, this report set down in black and white economic forecasts for farmers. These covered the future demand for, and supply of, each of the major farm products. They suggested to farmers how they might best adjust their operations to these probable future conditions.

Year after year these agricultural outlook forecasts were prepared and printed. It was found that such economic forecasting was not only practical but reasonably accurate. In the first eight years, the batting average of the commodity forecasts ranged from 85 percent to 95 percent correct. The information was brought to the attention of farmers generally. State outlook reports were issued, translating the national outlook in terms of local conditions. Outlook meetings were held with farmers throughout the country. In common with many other key technicians of the Bureau, I used to spend four to six weeks each spring travelling from county seat to county seat, day after day.

We spoke two or three times each day to real "dirt" farmers. From charts of the prices, production, and supplies of their commodities, we discussed with farmers the economic outlook for each of their products, and what they might do about it.

Despite all this information, farmers could do little to correct their economic difficulties. Millions of separate individuals could not take joint action. When the Federal Farm Board was formed in 1929, it called on the facts and men of the Bureau of Agricultural Economics to aid it. Hamstrung by a law that limited its operations to buying up surpluses and lending money to cooperative associations, there was little the Board could do to bring about the fundamental readjustments needed in agriculture, except talk. Talk is a poor substitute for organized action. The surpluses continued to pile up as exports shrank, and farm prices and farm income plunged steadily downward.

The A.A.A. was created in 1933 with power to take definite action to aid farmers to put their production on a balanced basis. Businessmen were drafted as its first administrators. Alongside of those businessmen, economists from government service were put as technical advisers. They were largely the same men who had spent the past 10 to 15 years in studying the facts of agricultural economics and in interpreting them to farmers. They brought to the job a knowledge of what really determined farm prices and what were the real economic difficulties in the farm situation. It was not merely an abstract theoretical knowledge, but an intensely practical knowledge, tested and proved in a decade of use in making forecasts that worked. They knew farmers and farm management, not merely as abstractions, but as life-and-blood men all over the country, with operating problems ranging from that of

one-crop cotton farming to running complex diversified corn-belt farms or extensive mechanized dry-land wheat farms. These men helped make A.A.A. work. As the businessmen, one after another, faded from the scene, these technicians took over the direction as well as the technical advice. Today, from top to bottom, A.A.A. is run largely by professional farm economists and other career men from public administration, graduates from a long career of public service to agriculture. These include Howard R. Tolley, A.A.A. Associate Administrator; J. B. Hutson and Jesse Tapp, Assistant Administrators; and F. F. Elliott, head of the Division of Program Planning. All were members of the Bureau of Agricultural Economics under H. C. Taylor or shortly thereafter. All have had long experience in agricultural research and administration. One real reason why A.A.A. has proved more indestructible than N.R.A. is that these men and many other technicians like them are running it. They operate as hardheaded and experienced engineers in the field of economic and social management. Secretary Henry A. Wallace and Under Secretary M. L. Wilson are themselves agricultural economists of long standing. Wallace, in addition to making notable contributions to crop breeding, is a recognized authority on statistical methods, and did some of the pioneer work on the analysis of hog prices. Wilson was head of the Division of Farm Management under Taylor, in the early days of the Bureau of Agricultural Economics. Wallace and Wilson insisted on sound economics and straightforward attacks on the problems of agriculture, both in developing the ideas of A A.A. and in putting it into action.

Industrial Expansion will need such men to run it. To tell the truth, there are few such men to be found in the field of industry. Industrial economics is almost an unex-

plored field. Even the essential statistical facts on which a comprehensive analysis might be based are missing for many important industries. If the country could wait, a 10-year period of work on the economic problems of industry, similar to the work on agricultural economics for farmers, should precede actually undertaking positive programs of industrial expansion. In that ten years a Bureau of Industrial Economics could be established in the Department of Commerce and could develop gudepots for industry. Basic essential facts could be collected for each industry. These would include prices of its raw, semifinished, and finished products; production, shipments, and stocks in the hands of producers, jobbers, retailers, and consumers; advance orders, unfilled orders, and shipments; inventories; plant repairs and contracts for plant expansion, and so on. These facts could be compiled, studied, and analyzed to determine what are the underlying economic facts or the habits or decisions of management which control production and price in each industry. They would reveal the factors responsible for recurring cycles in various individual industries, such as in housing or textiles. These industrial facts would be related to the general problems of the business cycle, and would give some understanding of the prospects for industrial activity as a whole. From these data and analyses industrial outlook reports could be prepared, presenting forecasts of the probable demand for, and supply of, each major product of each industry. These would show what each industry might do to adjust itself better to the prospective situation. These analyses and forecasts could be tested and improved in the forge of practical experience.

Such a development would be well worth while even as industry is now organized. It would give businessmen a

better guide to their current operations. It would help prevent them repeating some of the widespread mistakes, such as the feverish building up of inventories in early 1937 which no one was aware of until too late. That mistake helped precipitate the new depression of 1938. At the same time this service would develop the facts and train the technicians needed for a firm foundation for national programs of Industrial Expansion. If we could afford to wait, we should begin now in this way to develop the facts and key personnel for Industrial Expansion in the mid-40's.

In his message to Congress on the monopoly problem, President Roosevelt suggested action of exactly this sort. He included among steps to consider:

"Creation of a Bureau of Industrial Economics which should be endowed with adequate powers to supplement and supervise the collection of industrial statistics by trade associations. Such a bureau should perform for businessmen functions similar to those performed for the farmers by the Bureau of Agricultural Economics.

"It should disseminate current statistical and other information regarding market conditions and be in a position to warn against the dangers of temporary overproduction and excessive inventories as well as against the dangers of shortages and bottleneck conditions and to encourage the maintenance of orderly markets. It should study trade fluctuations, credit facilities, and other conditions which affect the welfare of the average businessman. It should be able to help small businessmen to keep themselves as well informed about trade conditions as their big competitors."

No such steps are yet under way. The very small funds asked by the Department of Commerce in 1937 for new fundamental work on industrial economics were cut to one-third by Congress, and then mostly withheld from ex-



penditure as an economy measure.<sup>1</sup> No new funds for such work are in the 1938-39 appropriation acts. After five years of the New Deal, we are still almost as ignorant in the field of industrial economics as we were under Hoover, and we are doing little more about it.

But we may not be able to wait ten years or so. If the new spending program does not produce full recovery, we may have to try something along the line of Industrial Expansion sooner than that. If we do, how far can we get with the men and the facts already available?

Some of the men needed as leaders can be drawn from business. There are in industry today many men who are socially minded, forward-looking and liberal. They are mostly junior executives, but some are heads of small concerns and some of concerns not so small. Many of them fought through the N.R.A. days as key workers with code authorities, or as deputy administrators. They tried conscientiously to use the N.R.A. devices to bring about fuller employment and increase industrial production. After N.R.A. collapsed, in many cases they carried the load of seeing to it that their industries maintained voluntarily the improvements in hours and working conditions established under the codes. These men, practical and successful business executives, are able to think in terms of industry-wide and nation-wide welfare. They are sobered and tempered by their experience in trying to deal with these problems by group action under the N.R.A. They could be drawn in as key workers in preparing Industrial Expansion programs and putting them into action. Along with them, there are

<sup>1</sup> The President recommended an appropriation of \$300,000 for industrial economics in his budget message recommending appropriations for the 1937-38 fiscal year. Congress appropriated \$100,000, with the condition that no new division be established. All but \$30,000 of this was impounded under the economy drive that year.

forward-looking leaders of labor. They know the problems of their industry and are intimately acquainted with their workers. They too could be vital factors in getting the programs drawn and put into operation.

If we start with what we now have, facts will be missing in many cases. The initial programs will have to operate in part on rough estimates, and in part even on guesses. Mistakes will be made. Unanticipated surpluses will appear, and unexpected shortages will develop. They will have to be met by changes in programs already under way, or by government purchase and storage until suitable readjustments could be made in later programs.

Sometimes the best way to find out what you don't know is to take action, and to discover what you need to know. If we start now, the initial expansion programs will throw a spotlight on the essential facts which are missing. They will lead to prompt and effective action to develop the facts to provide more effective guideposts for future programs.

If we start now, both our administrators and our campaign maps will have to be developed under fire. We will have to be prepared to discard promptly those men who cannot adjust themselves to the tasks, and to advance rapidly those who make good under the difficulties. We will have to be prepared for mistakes to be made and to pay their cost. But even if we do make some serious mistakes in the process of expanding industry, we may still be gainers. The costs of even a blundering expansion may be far less than the continuing costs, in wasted production and in wasted lives, of persisting heavy unemployment.

There are two ways we can move toward programs of industry expansion. We can either start now on a 10-year program of business research which will develop the facts and men to run Industrial Expansion, or we can start on

programs for Industrial Expansion with the men and facts that are available, and develop both as we go. But every year that we wait, without starting on either course, is another year lost in preparing for our war on poverty.

## XXV

*Can the nation afford an "ever-normal  
warehouse"?*

To bring about a concerted expansion in industrial production, it would probably be necessary for some agency to guarantee to each concern that its increased output would be sold. If the country wants this done, it might well have the government undertake this responsibility. Where the plans went wrong, an appropriate government agency would buy stocks of the extra commodities. Then in subsequent years the industry programs could be adjusted so these extra stocks could be absorbed again. The country would save much more from the reduced relief costs than it might lose in these commodity purchases and sales. Operations of this sort would constitute an "ever-normal warehouse" for industry, similar in its operations to the "ever-normal granary" the 1938 Farm Bill provides for agriculture.

Slight excesses of production above market needs have had a wholly exaggerated and irrational effect upon the workings of our society. If a pioneer family produced in one season more wheat and cotton than they needed that year, that would be a cause for rejoicing. They would store up the surplus, glad in the fact they would have enough to

feed and clothe them even if the harvests should be bad the next year. If they cut more firewood than they needed, or wove more cloth, the excess stored away would be a protection for the future. But as our oversensitive industrial system has worked in the past, surpluses have been reasons for lament, and short crops have led to rejoicing. When farmers have had bumper crops of cotton or wheat, the income of the producers has been destroyed. When automobile and steel factories have produced more than could be sold immediately, and a half-million or a million cars have piled up in inventory, production has been cut off with such a jerk that the whole industrial machine has faltered and slowed down. Production of slightly more than we could sell immediately resulted, in 1937, in our closing down shop until we were producing barely at half speed in mid-1938. A slight surplus has often been as damaging to the economic system as a blood clot or coronary thrombosis is to the human system.

In agriculture, the ever-normal granary system has partially broken this evil chain. Planned expansion in city industries, backed by purchase guarantees and an ever-normal warehouse, will similarly free city industry from the constant threat of paralysis when production of some product slightly outruns consumption.

The purchase guarantees will become effective only when satisfactory expansion programs go into action in a number of dominant industries. As industries expand under their programs, men will return to work, and production and pay rolls will increase. Increased buying power here will stimulate the remaining industries. Activity and buying power will rise not only in the industries where expansion programs have been drawn up and agreed upon, but in all other industries. The rise of buying power through-

out the nation will provide profitable markets for practically all the increases in production guaranteed by the government.

Only in those industries where the plans do not work as expected will the government agency be called on to take over the excess product. Consumers may not choose to spend as much of their increased income on shoes as had been anticipated under the shoe industry program. They may buy more clothes instead. The production of clothing will then have to be pushed up faster than had been previously planned, while some shoes will be left in the manufacturer's hands. The designated agency will then buy these excess shoes at the agreed-upon discount, say 10 percent below the regular price. When the program for the shoe industry is drawn up for the next year, allowance will be made for the surplus shoes left over from the year before. Production of those special types which were in excess will be left low enough to move the accumulated surplus into consumption. Perhaps some loss will be taken on their sale. Style lines a year old may have to be sold at more than the 10 percent discount to move them. That will be all the loss the government will stand.

Even if the nation does sustain some sizable direct losses from such purchase and sale operations, it will still be ahead on the whole transaction. A general increase in production and in national and individual incomes will result from the Industrial Expansion programs. This will greatly increase the revenue of the Federal Government without raising tax rates. Meanwhile, the increase in private employment will sharply reduce the need for relief. How rapidly these two factors can operate to improve the position of the Federal Government has already been shown in Chapter VII.

An effective Industrial Expansion program should be able

to increase national income by 10 billion dollars a year for each of its first three or four years. The nation can well afford to have the Federal Government spend a good many hundred million dollars a year to cover losses incurred in underwriting such expansion programs, and still be billions of dollars ahead as a consequence.

## XXVI

*Will Industrial Expansion end all competition?*

How far competition can be retained alongside of industrial planning is a very real problem, and one to which no categorical answer can be made. We are living in a world in which competition exists side-by-side with other forms of activity which are noncompetitive. Our system is a mixed system, of competition mixed with monopoly. From a study of its workings we may be able to judge whether another system, of competition mixed with planning, is equally possible. Such study may suggest some of the places where competition might well be retained, and some where it has been so long absent that it is hopeless to attempt to restore it.

First we must decide what we mean by competition. The lawyer's definition will not do. At least the legal definition of monopoly, "conspiracy in restraint of trade," is not an adequate economic definition of the absence of competition. The lawyer is concerned with *intent*, with whether men or concerns actually *conspire together* to restrain trade. The economist, on the contrary, is concerned

with result rather than with intent. The small competitors of some great overshadowing concern may be so afraid that it will drive them out of business that they will not undercut its prices. As a result prices may be maintained on a monopolistic basis even though the officers of the several concerns never communicate or meet with one another. The *result* is what determines business activity, not the means.

In the economist's terms, competition means that conditions in an industry are such that the law of supply and demand will work at least moderately well. The law of supply and demand states the way prices should govern production and consumption of each product, so as to balance what is produced with what is consumed. If too many shoes are produced, for example, and if competition is effective, the price of shoes will fall. The lower price will enable some consumers to buy who could not buy before, and will encourage others to buy more, so sales will be stimulated. The lower price will also reduce profits of producers. Some of them whose costs are high will reduce production or stop altogether. With increased sales and reduced production, the surplus will soon be disposed of. Supply and demand will thus be brought into balance.

If, on the other hand, production is not enough to meet the demand, prices will rise. So will the profits of the shoe factories. The high profits will attract new concerns to start producing shoes, and will stimulate existing concerns to expand their production. The increased production in turn will force down prices and profits, until a new balance is struck between supply and demand.

Without following through all its other ramifications, we can sum up the effect of competition by saying that when it is present, it tends to keep supply and demand in adjust-

ment. It also tends to drive prices down to the level where profits just cover normal interest on the money invested and reasonable salaries for management. If these interest and salary payments are calculated as part of the normal costs of production, competition can be said to tend to drive prices down to the level where they just equal costs of production, with no true profit above that level.<sup>1</sup>

Corporations are not pleased, however, when they can just earn long-time interest on their invested capital. They feel that earnings of 10 to 15 percent a year are only fair and desirable. In consequence, they do everything they can to keep price and profits above the levels that would prevail under competitive conditions. Recent economic theory has begun to explore the ways in which this so-called "monopolistic competition" works, and how far it has replaced the simpler competitive forms. A whole literature has grown up around this subject.<sup>2</sup>

Without exploring the details of these recent studies, they can be summed up by saying that in any industry where one or a few concerns control a large part of the output or of the sales outlets, competition tends to disappear or to be greatly modified in its workings. Steel is a good

<sup>1</sup> This streamlined illustration leaves out the complications of marginal costs and marginal concerns, representative concerns, unstable equilibria, etc. For some of the economic and statistical ramifications of these, see the author's article on "The Cobweb Theorem" in the *Quarterly Journal of Economics*, February, 1938.

<sup>2</sup> Four of the outstanding recent studies on the modification of economic adjustment by monopolistic action, are as follows

Adolf A. Berle, Jr. and Gardiner C. Means, "The Modern Corporation and Private Property," Macmillan Company, 1933

Gardiner C. Means, "Industrial Prices and their Relative Inflexibility," Senate Document No. 13, 74th Congress, 1st Session, 1935

Edward Chamberlin, "The Theory of Monopolistic Competition," Harvard University Press, 1933.

Arthur R. Burns, "The Decline of Competition," McGraw-Hill Book Co., 1936.



illustration. Here one concern, U. S. Steel, produces about 40 percent of the product. Together with four other concerns, it accounts for 68 percent of the output. A freely competitive market, like the wheat market before A.A.A., shows continuous price changes both from time to time and from place to place. The steel industry has largely suppressed these price variations both in time and in space. The basing point system of quoting steel prices has eliminated much of the changes in space. The tendency of the industry to follow the price leadership of U. S. Steel has stabilized the prices in time. The quoted price of steel was practically unchanged from August, 1934 to June, 1936. By March, 1937 it was raised to a new level 20 percent higher. In the fall of 1937 the demand for steel dropped suddenly. Instead of the steel price falling, as would be expected under the law of supply and demand, the price was maintained and the production was cut instead. Between August and December 1937, steel production was reduced 65 percent, yet the quoted prices remained unchanged until well into 1938.<sup>1</sup> Many other industrial products showed similar inflexibility of prices.

The industries where price competition is at least partially effective, and the industries where it has largely disappeared, are indicated by the following table taken from Gardiner Means' report referred to before. These data cover the changes in production and price between 1929 and 1933, during the great depression.

Industries where monopolistic controls are the most severe are most in need of the planned adjustment of both production and price which Industrial Expansion would provide.

<sup>1</sup> See *Survey of Current Business*, 1936 Supplement and March 1938 issue.

## CHANGES FROM 1929 TO 1933

*Industries where price competition is largely curtailed*

	<i>Per cent Decline in price</i>	<i>Per cent Decline in output</i>
Farm machinery	6	80
Motor vehicles	16	80
Cement	18	65
Iron and steel	20	83

*Industries where price competition mostly continues  
to work*

	<i>Per cent Decline in price</i>	<i>Per cent Decline in output</i>
Textile products	45	30
Food products	49	14
Leather	50	20
Petroleum	56	20
Farm products	63	6

Some industries already are under some form of public control. In those cases Industrial Expansion would work through or with the existing public agencies. The A.A.A. laws restrict competition among farmers, and the Guffey Coal Act regulates competition among bituminous coal producers. Since these industries are already regulated by regulatory or planning agencies of their own, the Industrial Expansion authorities would not attempt to deal with them directly. Instead, they would work with the established planning or regulatory agency for the industry, so that its future operations would be developed consistently with the Industrial Expansion programs. The same thing would apply to the railroads, the electric utilities, the communication industries of telephone, telegraph, radio, and

the post office, and all the other utilities already under various forms of public regulation or control.<sup>1</sup>

There are certain key industries where competition, in the economist's sense, is very deficient, to judge from the table above. These include, besides steel already mentioned, cement, automobiles, and farm machinery, copper, aluminum, and many others. Industrial Expansion programs, to use definite planning to expand jobs, pay rolls, and production, will obviously be needed for these industries. There, planning is needed, not to replace chaotic competition, but rather to control the policies of large corporations operating under monopolistic competition. Planning is needed to direct their policies consciously toward the public welfare of more jobs and larger output instead of toward the monopolistic objective of larger profits regardless of the effects on jobs or production.

In a second group of key industries, competition prevails all too well. These are largely the industries making consumption goods. In these, capital investment in equipment per worker is usually lower than it is in the heavy capital goods industries, and labor cost is a large part of the value of the finished product. These include the textile industries, producing cotton, silk and wool thread and fabrics, and rayon fabrics; the shoe industry; and the clothing industry as a whole. It is noteworthy that during the depression textile prices fell 43 percent, but production fell only 27 percent. Shoe prices fell 22 percent and production but 14 percent. The law of supply and demand does work moderately well in this large group of industries.

It is conceivable that an Industrial Expansion program might work even if it left these competitive industries out-

<sup>1</sup> For the cooperative programs of these industries with Industrial Expansion, see Chapters XVIII to XXII.

side of its scope. Instead of planning increased production and output for them, they might be left to respond to the increased demands resulting from rising employment and pay rolls in the heavy industries. Competition might be relied upon to prevent increases in prices or undue increases in profits, and to insure an increase in production and employment corresponding to the volume of expansion in other industries.

There are reasons, however, why it might be desirable to include the textile and clothing industries in Industrial Expansion programs. First, competition in these industries tends to degenerate into competition to see who can get his labor cheapest. An expansion program which put a firm bottom under wages through minimum wages for each occupational group would limit this type of competition. Second, these industries tend to considerable instability. All factors, spinner, dyer, clothing manufacturers and dealers, tend to order ahead and stock up when prices are rising, and to stop buying and draw on inventories when prices are falling. Such excessive accumulation of clothing and textile stocks in the first half of 1937 contributed to the subsequent recession. Third, these industries expand their capital equipment mostly during the periods of high activity, and thus add to the instability of the machine tool and other capital goods industries. A planned long-time program of equipment expansion, as part of the Industrial Expansion action, might greatly reduce both wage-cutting competition and the instability in inventories and capital formation in these industries.

In certain areas of industry, however, style is a very uncertain and fickle factor. This may apply to all women's hats, to the more expensive lines of women's dresses and coats, and to certain other things such as dress shoes and

accessories. These and related lines which depend heavily on an unpredictable style factor might well be left out of the expansion programs, and be conducted as in the past. Meanwhile, the bulk of the clothing industry, producing more staple products for lower-income groups, could have its general volume of production, employment, and sales planned ahead under Industrial Expansion programs and contracts.

Competition is also active in much of the whole field of wholesale and retail trade. The gradual emergence of large-scale integrated concerns in this field, such as the chain stores and the mail-order houses, seems to be due at least in part to more efficient large-scale agencies replacing less efficient and more costly methods of selling. The attempts of small retailers to check this growth through taxes on chains and legal prohibitions on price-cutting are largely not efforts to maintain competition, but to prevent or hamper it. As matters stand now, though, there are hundreds of thousands and even millions of individual selling units in the retail field. In a few instances, as in milk distribution, the business in any one city may have been so concentrated in a few concerns as to limit competition and produce sustained high profits. In most cases, however, competition is still moderately effective in selling. Certainly it is far more effective than in the closely controlled manufacturing industries.

There are nearly two million units in retail and wholesale trade. Most of them are small single-family businesses. It would be exceedingly difficult and cumbersome to bring them under a planned program. Attempts to "codify" these industries contributed a great deal of the administrative grief in N.R.A. days. Stores frequently have the lowest pay and the longest hours of any major occupation. It

would be desirable to attack this wage and hour situation directly under an industrial program. The difficulties of diversity and numbers, however, outweigh this desirability. Instead of preparing expansion programs for stores, it would seem better to deal with them indirectly through competition. Let the expansion programs for the major manufacturing industries and for other industries covered gradually draw off available men at shorter hours and higher wages. As the supply of surplus labor is reduced the stores would be forced to offer higher wages and shorter hours. As more products are produced, and as workers in factories and transportation get more income, stores will expand their activities, too, to meet the increased retail demand. Stores will operate nearer to capacity and will make more money. More clerks will be needed. Fewer men will be looking for jobs. Wages will rise as a consequence. Employees in wholesale and retail selling will thus feel their share of the benefits of Industrial Expansion indirectly, just as farm laborers will. The demand for their services will increase, the number of men looking for jobs will decrease. Competition through the labor market, rather than conscious industry programs, will be depended upon to raise the incomes of workers in this industry.

There are several other minor industries in much the same situation as retail and wholesale trade. These include hotels and restaurants, laundry and cleaning, pressing, barbering, etc. These service industries are largely local in character in any case. Pants pressing is not an interstate activity, as General Johnson eventually discovered. The N.R.A. experience has conclusively shown the difficulties of attempting to apply any comprehensive economic plan to these sprawling, diversified and localized activities. They would be left out of Industrial Expansion. They and their

workers would benefit indirectly through the general expansion in demand and the general rise in labor conditions, rather than directly through specific programs for their industry.

The printing and publishing industry stands in a somewhat different position. Printing is frequently small-scale, as well as sometimes large-scale. The same holds true of book publishing. Newspaper and magazine publishing, however, tends to center in large concerns, especially in the large cities. There is no reason why workers in these concerns should not enjoy the same rights and privileges that do workers in other manufacturing plants. But any attempt to develop expansion programs for newspapers and magazines would probably run into the same antagonisms and difficulties as did the attempts to codify the newspapers. In addition, the interstate character of many individual newspapers is a matter of question. Here, as in the industries just discussed, it would probably be the part of wisdom to depend on the indirect effects of expansion programs in other industries, rather than directly on specific programs for the industry. Increased industrial activity and employment would certainly enlarge the markets for newspapers, magazines, and advertising. Individual publishing concerns would be quick to expand. The competition between papers or magazines is sufficient to keep prices and rates at least moderately in line. New publications are constantly appearing. Despite the established position of going concerns, these new concerns, with fresh points of view and editorial policies or eye appeal, not infrequently displace the old. Workers shift back and forth between journalism, advertising, and the information and other services of business and government. Expansion of demand, competition for business, and competition for workers can probably be

relied upon to keep this industry in step with others, both as to production, prices, and labor, without developing separate programs for it.

Industrial Expansion programs can thus be used to bring about a planned and calculated increase in activity in the major heavy industries, and in the standard lines of textiles, clothing, and shoes. At the same time correlated programs of expansion will be gotten under way in the related industries already provided with some form of public planning or control, including the postal service, agriculture, railroads, telephone, telegraph, and other interstate public utilities. Beyond that, competition will be depended upon to extend the advantages of Industrial Expansion to the diversified and manifold activities of wholesale and retail trade, the service industries, and publishing and advertising.

The restriction of the planned programs of Industrial Expansion to a few selected key industries leaves the way free for experimentation and growth to continue. When new products are invented, such as air conditioning or electric razors, or new styles are introduced, such as aboriginal-shaped hats, they will be free to develop without planning or limitation. The only limitation will be that they can pay enough for men and materials to be able to compete with the going concerns for their use. Only if the new product or new industry becomes established, and grows to such large size that it becomes a major factor in our industry, would it be brought under formal programs. Even then it might be left outside if competition seemed to be working effectively to hold down prices and to maintain the welfare of workers. Radios at the present time are an example of an industry already well past its first state of growth, yet probably sufficiently competitive to function outside the formal programs. Automobiles would cer-



tainly have stayed outside as a new experimental industry in the period prior to the World War. Today, the automobile industry is largely dominated by three concerns. Its activity constitutes one major influence in the welfare of the country. Its corporate pricing and production policies are a matter of grave concern to all. It is one of the industries most in need of carefully formulated advance planning, properly integrated with the plans of other major industries. It is a prime candidate for Industrial Expansion treatment.

The final decision as to which industries should be covered by Industrial Expansion programs, and which should be left out, will not be easy. In many cases the facts will not be clear-cut, and the issue will be an uncertain one. Initially, it will probably be wisest to draw the line as tightly as possible. Only those industries which definitely need to participate in the expansion programs should be included at the start. Following that policy will make the initial administrative job as simple as possible. It will restrict the number of Industry Authorities to be elected and organized, the number of industry programs to be developed, cross-checked, and approved, and the number of individual production contracts to be drawn and signed, to the fewest necessary for effective operation. Even when restricted so far as possible, the composite administrative job will be a Herculean one. These limitations, however, should help keep it from growing to the unmanageable and uncontrollable size that the N.R.A. program grew to.

After the first program is under way it will be possible to study the industries left out and see which ones need be brought in later. Even then it will be well to be modest, and to keep the administrative job as small as possible. Not until the third or even the fourth year of Industrial

Expansion programs can it be hoped that the number of jobs will begin to catch up with the number of workers. Not until that happens will the workers in the outside industries share all the improved wage and hour conditions of those in programmed industries. In the meantime many of these workers in outside occupations will press for inclusion of their industries in the program, in order to speed up the progress in their working standards. The administrators and the legislators will have to resist such pressures as best they can, if they are to continue to depend on competition to improve conditions outside.

Under Industrial Expansion, competition can continue to exist in some industries alongside of planned activity in other industries, just as today effective competition continues in a few industries alongside of monopolistic restrictions or rigidities in some industries and governmental controls in others. Competition will expand production and employment in the outside industries at the same time that the planned programs are expanding production in the areas now restricted by shortsighted controls.

Our economy today is half slave and half free. The restrictions in the slave portion hamper the development of the system as a whole. Industrial Expansion offers a way to resolve this difficulty. It will modify the controls to provide conscious and coordinated expansion in the slave portion, without restricting the free. If we cannot break the chains that corporations and public agencies have forged about the free movement of much of our industrial order, we can at least see that the slave industries work for the general good. That is what Industrial Expansion aims to do.





PART SIX  
ALTERNATIVE PROPOSALS



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PART VI

*ALTERNATIVE PROPOSALS*

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XXVII

*Can't we expand one industry at a time?*

Many persons believe we should grow into industrial and economic planning industry by industry. Take one industry at a time. Work out the kind of organization for planning action that fits it. It may be a trade association, a marketing agreement, or a code of competition. Secure the cooperation of businessmen and workers in that industry in setting up the organization, in studying the industry's problems, and in preparing plans to solve them. Persuade producers in the industry to take the industry plans into consideration in making policy decisions. When planning is running smoothly in that industry, tackle the next one. This gradual evolutionary approach is undoubtedly the least upsetting to the established order of things. It is most in harmony with the general liberal idea of gradual progress toward the goal of a more effective economic system. Historically, it is the course that America has generally followed. Milestones along that course include establishment

of the I.C.C. for railways, of public utility commissions, state or local, for other public utilities, the Federal Radio Commission, the A.A.A. for agriculture, the various oil controls for the petroleum industry, and most recently, the Guffey Coal Act for bituminous coal. The Federal Reserve System for banks might also be included. Its major objective, however, was not planning for the welfare of banks as such, but rather the establishment of a central bank as a stabilizing factor in finance for the entire country. N.R.A. alone attempted to deal with many industries at the same time. It was our sole exception to the industry-by-industry approach.

Gradual approach to the problems of industrial planning has a long record in this country, and one that has involved steady extension into new industries. Cannot a continuation of this program eventually achieve the ends of Industrial Expansion? Would it not save the turmoil, confusion, and opposition, that would result from an attempt to introduce planning rapidly in a number of major industries at the same time?

Perhaps such a slow and gradual progress is all that we can maintain. Perhaps conscious industrial planning for concerted expansion can come only after years and decades more of gradual extension. Yet so long as production planning is restricted to a limited number of industries, so long will we leave untapped the major potentialities for bigger production, more jobs and higher standards of living.

The situation in a single industry will show what the untapped potentials are. A high railroad executive recently said: "If industry were running at full production, we would have plenty of freight to haul. We could reduce our freight rates to reasonable levels. We could pay higher wages. We would have jobs for more men. We'd make

good profits at the same time. Those are things we could easily do if the whole country could keep running at the 1929 level, or higher. But if we reduced freight rates by ourselves, that won't do the job. Lower freight rates alone won't make the auto factories, the steel plants, the lumber mills, and the cement and gravel plants run at full capacity. If we cut rates by ourselves, our traffic would go up little if at all, and we'd be in even worse shape than we now are."

This statement epitomizes the limitations of industrial planning for one industry at a time. The same result appears time after time in every single-industry attempt at using economic planning. Whether for railroads, farmers, oil, or coal, the same statement is made: "Our production, (or our prices) do not determine the national income. What we do, as a single industry, will have very little direct effect upon the national buying power as a whole. What we must do is to adjust our operations to that national buying power. If we throw on the market more than the rest of the country can afford to pay for, our prices will go down and our income will suffer. We must be careful to produce only as much as the market will take at satisfactory prices. In that way we'll make our own income as big as possible in view of the existing national income." So in industry after industry, single-industry planning has led inevitably to adjustment or control of production, to restriction of output, or to prices so high as to yield profits despite below-capacity operation.

In some industries there is no legislative authorization for planning. Many such industries are unofficially or even illegally planned through monopolies, understandings, or working agreements among the leading producers. In industries such as steel, cement, many building materials, copper, electrical equipment, prices have often been held at



levels adequate to pay profits even when the plants were running at only on a 40 to 50 percent of capacity. Investors and management are protected even though workers lose their jobs or have work for only two days a week. Such industrial planning tends toward the restriction or limitation of output in each industry. It can never lead to concerted expansion of production to capacity limits. A series of minus quantities can never add up to make a plus total.

Under N.R.A. planful expansion might have been developed simultaneously for a large number of industries. Even then the possibilities of concerted expansion of production were not tapped. Instead, each industry, and frequently each subsegment of each industry, was left practically free to develop its own program without much regard to the programs other code groups were developing. The matter was viewed solely from the restricted point of view of what seemed for the immediate welfare of each narrow sub-industry. Code after code was developed providing for limitation of output, restriction of new equipment, holidays in production, and prevention of price declines. In many cases the code authorities, without approval by the N.R.A. officials, went far beyond the specific authority in their code. Through their own unreviewed administrative action they initiated restrictions on output or limitations of price changes far beyond those authorized. Outwardly, N.R.A. had the form of industry-wide planning. Had it been more understandingly and effectively administered, it might have made great progress towards industry-wide expansion. As it was operated, however, N.R.A. provided merely a series of single-industry plans, without interindustry coordination, and with no provision or means for concerted expansion. The codes mostly worked in practice exactly the same that single-industry

planning works elsewhere—toward less, rather than more, production.

There is one way by which planning within single industries might contribute to general expansion. That is by evening out the rate of capital expansion in the industry. In the past, expansions in capital equipment have been made very irregularly and even spasmodically. So long as their existing facilities are large enough to meet current demands, most concerns invest little or nothing in larger factories or additional machinery. Then, when booming business pushes production up to near the capacity of their existing equipment, they engage in a wild scramble to expand their facilities. This tends to concentrate a large part of the building of new machinery and factories in the short period during and immediately following business booms. In between the periods of rapid expansion, there is near-stagnation in the industries which produce the machines and tools and build the factories. Between 1927 and 1929, for example, industrial production increased 12 percent. During the same period, expenditures by industrial concerns for new capital equipment increased 37 percent. By 1932, output fell by 46 percent, capital expenditures by 79 percent.<sup>1</sup> The electric power industry enjoys one of the stablest of all industrial markets. Even this industry shows a marked instability in new capital construction. A large part of the orders for new generating plants and new distribution lines are concentrated in the periods immediately following capacity shortages. Once they have expanded capacity, the electric utilities make little further provision for future growth until they are again pinched by expanding sales.

The telephone industry, on the contrary, draws long-time plans for capital expansion. These are steadily carried

<sup>1</sup> See Appendix Tables 1 and 3.

forward with little regard to short-time changes in business prospects. As it happens, A. T. & T. not only owns the operating companies, but is affiliated with the companies that produce most of the telephone equipment. This fact may help to account for the advance planning. It obviously would be no economy to the equipment end of its business to operate double-shift part of the time, and then not to operate at all over other long periods.

The telephone industry, however, is a major exception. Railways, mining concerns, manufacturing concerns, each shows as a group a very unstable rate of new capital expenditures. This can be explained only in terms of almost unthinking reaction to immediate necessities. If there is any planning, it is in very short-time and shortsighted terms. Such industries dominate our industrial scene. Planning for such industries might lead them to schedule their capital expansion on a long-time base, and to spread its construction out evenly over long periods. This would reduce the erratic movements in related construction and heavy-goods industries. To the extent single-industry planning can introduce stability into capital expansion, it will contribute to more orderly progress for industry as a whole, and thus aid in a nearer approach to capacity operation. Yet so long as it operates in single-industry terms, the long-time planning of industry and of capital needs will still contain many unknown factors. There will have to be wide margins for possible errors. Industry-wide planning, on the contrary, would provide over-all objectives and goals as a guide to each individual industry. In any case, even single-industry planning of capital expansion is as yet an unexplored and undeveloped possibility.

Many individual groups are using planning in some limited way. They include farmers, miners, railroads,

steel mills, automobile manufacturers, and cement producers. To date, this individual industry planning has resulted in each industry drawing its plans so as to try to get for itself the biggest possible slice out of the total pie of national production. It has not resulted in a concerted effort to make the whole pie bigger, so that there would be bigger slices for everyone. So long as each group centers its whole effort in trying to get for its slice a bigger portion of the whole pie, so long will their efforts tend to cancel out one another, and be dissipated in struggle and heat. When we find some practical way for all groups to combine their energies to make the whole pie bigger, then all can have bigger slices at the same time. Only concerted industry-wide expansion can produce more employment, higher wages, bigger profits, and more farm income, all at the same time. If planning is to be fully effective, it must be planning on an industry-wide scale. It must cover such a range of major industries, and must provide such positive means of carrying the plans into action, as will definitely expand and balance output, and provide more for everyone.

## XXVIII

### *Would a 30-hour bill make jobs for all?*

Many people have reasoned that if we do not have enough work for all our workers, the solution would be to divide what work there is among all of them. The 30-hour proposal is one of the simplest suggestions for doing this. Restrict all workers to 30 hours per week. Require employers to raise wages so that workers earn as much in 30 hours as

they now earn in a longer week. More people will have to be employed, and unemployment will disappear. Is this the way to create jobs for all?

We can understand better how the 30-hour bill might work if we try to follow it through in a concrete case. Let us see how it would work out in a representative small factory.

The Elite Shirt Company will do for an illustration. This imaginary concern is a small struggling firm renting a loft in New York City, in the clothing district north of Pennsylvania Station. In good times it employs 40 workers. Just now sales are poor and half of its workers have been laid off, so that half of its machines, cutting tables, and work benches are standing idle. The employees are mainly women and girls. They are working six days of eight hours each, 48 hours per week in all. Their pay is a flat \$12 a week—25 cents an hour.<sup>1</sup> The work shop is pretty old and gloomy, since the concern has never made enough money to afford modern conveniences, or to paint and spruce up. It just gets by the minimum factory standards of the New York State labor laws.

Running only half full, the concern isn't making much money. In fact, it's just breaking even after the owner, Sam Leven, takes out a drawing account of \$25 a week—and that's less than he needs to keep his family going in the apartment Mrs. Leven had rented when times were better. His books show that his weekly operations are panning out this way:

<sup>1</sup> For the sake of simplicity in discussing the case, all workers are assumed to get the same pay. Actually the more experienced and skilled operators, such as cutters, would be paid more than the average, while others would get less.

*Expenses:*<sup>1</sup>

Rent, heat, interest on debt on machinery, other fixed costs	\$135.00
Personal drawing account, Mr Leven	25.00
Cost of materials—cloth, buttons, thread, repair of machines	320 00
Labor—20 workers at \$12	240.00
TOTAL EXPENSES	<u>\$720 00</u>

*Receipts:*<sup>1</sup>

80 dozen shirts sold at \$9 per dozen	720 00
NET PROFIT	<u>\$ 0</u>

Now suppose that a 30-hour bill is passed. The Elite Shirt Company has to reduce its weekly hours to 30. To give the workers the same weekly income, it has to increase its average pay from 25 to 40 cents per hour. Each worker will still be making \$12 a week. How many more will be employed, and how will the proprietor stand, as he tries to adjust his operations to the new law?

Before, his girls were turning out an average of four dozen shirts apiece in 48 hours—one shirt an hour. Now the girls will be working a shorter time each day, and will have two days off each week-end. Even with the same equipment, it would be reasonable to expect them to turn out more per hour. If their speed goes up one-fifth, they would average 35 shirts in 30 hours. To keep on turning out 80 dozen shirts a week, Mr. Leven will have to hire seven more workers full time, and one more worker half time.

Not only Mr. Leven, but other manufacturers as well,

<sup>1</sup> These figures do not go into social security taxes and many other details. They are based on data given for this industry in the Census of Manufactures.

will be facing the same problem. The cotton mills, the dyeing plants, and the button factories all will have to hire more workers to get the same work done. In these industries, where competition is keen and profit margins are proverbially thin, each one will figure on making up for the increased labor costs by charging more for his product.

With all these changes taken into account, how would the Elite Shirt Company's operations stand right after the 30-hour bill first went into effect? Here's an approximate idea:

*Expenses:*

Rent, etc. same as before	\$135.00
Personal drawing acct. Mr. Leven	25.00
Cost of materials—cloth, buttons, thread, and repairs	392 00
Labor—27 ½ workers at \$12	330.00
TOTAL EXPENSES	<u>\$882.00</u>

*Receipts:*

80 dozen shirts sold at \$11.025 per dozen	882.00
NET PROFITS	<u>\$ 0</u>

This statement is based on the idea that the price of the cloth, buttons, etc., bought by Mr. Leven would probably go up in price in the same proportion that Mr. Leven had to increase his prices. This works out at 22 ½ percent price increase.

If for the sake of simplicity we assume that manufacturing and selling concerns in all industries were to make the same percentage increase in employment and in prices that this one concern made, how would workers stand right

after the change went into effect? Let us see.

People at work—

20 before, 27½ after	increase 37½ percent
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Weekly income per worker \$12	no change
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Total pay rolls—

\$240 before, \$330 after	increase 37½ percent
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Cost of living (based on price of shirts)

\$9 before, \$11.025 after	increase 22½ percent
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The 20 people who were at work before find their weekly pay is unchanged, but their cost of living has gone up 22½ percent. They can't individually buy as much as they could before. On the other hand, 7½ new jobs have been made for people who previously were earning nothing (except possibly from relief work). If we assume that relief expenditures are not decreased, that is, that other people are put on relief in place of those taken off, the buying power of the whole public has been increased somewhat. Pay rolls have gone up 37½ percent, and cost of living has increased only 22½ percent. Buying power has increased faster than prices. Despite the higher prices, workers as a whole can buy 12¼ percent more goods than they could buy before.<sup>1</sup> Business activity will increase in consequence.

If shirts share equally in this increased demand, the sales of shirts would go up 12¼ percent. If prices meanwhile stay the same, how will Mr. Leven's books look after this increase has had time to register?

<sup>1</sup> This over-states the case. Not all consumers' income comes from wages, so buying power would rise less rapidly than pay rolls.



*Expenses:*

Rent and other fixed charges	\$135.00
Personal drawing account	25.00
Cost of materials	440.00
Labor—309 workers at \$12	<u>371.00</u>
TOTAL EXPENSES	\$971.00

*Receipts:*

89.8 dozen shirts at \$11.025 per dozen	\$990.00
NET PROFIT	<u>\$ 19.00</u>

With the larger sales and larger volume of operations, Mr. Leven has a small profit margin at last. Meanwhile employment and pay rolls have increased again, so still more products could be sold. At the level shown just above, pay rolls are 55 percent above their initial level. As compared to the 22½ percent rise in prices and costs of living, this would support a level of business activity 25 percent higher than in the beginning.

Before trying to figure out how much further increase in activity might take place in this way until increased demand and increased production balanced one another, one other development would have to be taken into account. The fixed charges of the Elite Shirt Company include rent, heating and lighting, interest, and depreciation of machinery. It would have to use more working capital to cover the larger volume and the higher cost of materials. With the higher prices for commodities in general, it would have to pay more for repairs, and spend more for new machinery when its old sewing machines and other equipment wore out. After a time the higher commodity price level would make building costs rise and tend even to drive up the rent it would have to pay. Certainly Mr. Leven would want to increase his own drawing account as fast as prices and the

cost of living went up. All these things would mean that the overhead costs, which at first would tend to stay unchanged, would start following wages up. After possibly two or three years, this increase in overhead costs might make the weekly business of the Elite Shirt Company look like this.

*Expenses:*

Rent, heat, interest, etc.	\$185.00
Personal drawing account, Mr. Leven	34 00
Cost of materials	439.00
Labor—27½ workers at \$12	330.00
TOTAL EXPENSES	<u>\$988.00</u>

*Receipts:*

80 dozen shirts at \$12.35 per dozen	<u>\$988.00</u>
NET PROFIT	\$ 0

This has been figured through to show what would happen by the time everything else had gone up as much as labor costs per unit of production, after allowing for the increased labor efficiency due to shorter hours. Prices would then be 37½ percent higher than they were to start with. The total pay roll would be 37½ percent higher than before, or just enough to offset the higher prices. While 27½ people would be at work, they would have no larger buying power than 20 people had before. With no larger buying power, only as many shirts would be made and sold as in the beginning. This all holds true if we figure that what happens in this one factory would represent what was happening in all other factories at the same time.<sup>1</sup>

<sup>1</sup> Actually the situation would be much more complex, with a great variety of reactions in different concerns. The effect of shorter hours on output per hour, in particular, might vary widely from the one-sixth

This last calculation leads to one very significant conclusion. Businessmen, forced to pay higher wages per unit of production, might also figure that they had to increase their overhead charges in the same proportion as their labor costs, and be unwilling to sell at prices which did not cover this larger overhead. To the extent that they do that, prices will rise as fast as wage costs per unit of production. If prices do rise as fast as wage costs, the stimulating effect of shorter hours will be cancelled out, and neither sales nor business activity will increase.

This thumbnail illustration has left out many aspects of the problem in real life. It has assumed that the shorter hours would affect all workers equally in all industries, while actually some would be affected more than others. It has assumed that hours would be reduced equally in all industries. It has assumed that the cost of living goes up as fast as commodity prices, while actually consumers, too, have fixed payments for insurance, rent, and the like which do not change readily. Even so, though, the general result of the computations is believed to be substantially correct. That result is this: forced reductions in hours and increases in wages might cause an immediate increase in business. That increase would tend to disappear as other costs followed prices up. If businessmen were too quick to raise prices, the expected increase in business might not appear at all. In late 1936 and early 1937, autos, steel and other industries, forced to advance wages, promptly increased prices by as much or more. This actual experience suggests that business would probably act so that the immediate gain from a 30-hour bill would be the least, rather than the most, that these calculations show as possible.

increase assumed here, both in different concerns and on the average for all.

Undoubtedly there is need to prevent unduly long hours. This is particularly necessary in the sweatshop industries to prevent competition there from becoming competition in seeing how far down wages and working conditions can be pushed. But the reverse is not necessarily true, that drastically shorter hours will of themselves inevitably produce more employment and more income. Any temporary gains that might come from reducing hours faster than improving technology justifies, would tend to disappear as other costs began to follow wages up.

## XXIX

*How does Industrial Expansion compare with a  
30-hour bill?*

In the preceding chapter we followed through the fortunes of the Elite Shirt Company under a 30-hour bill. We saw that the results were not all that could be hoped for. How would such a company fare under Industrial Expansion? Would the planned expansion of employment and markets actually work out any better, either immediately or in the long run, than the 30-hour proposal worked out? Let us see.

We will figure that the first expansion program provides for a 25 percent increase in national income, and that the demand for shirts increases in the same proportion. We will also figure that the first programs are so calculated that prices do not go up, either for shirts, for cloth and other materials, or for the cost of living in general. Under these conditions, how much change will there be in the opera-

tions of this one company? The following tabulation shows its affairs before and during the first year's program, under these assumed conditions.

<i>Expenses:</i>	<i>Before</i>	<i>Under Industrial Expansion—1st year</i>
Rent, heat, interest and other fixed charges	\$135.00	\$135.00
Personal drawing account	25.00	25.00
Cost of materials and power	320.00	400.00
Labor—20 workers at \$12	240.00	26 workers at \$12.50 325.00
<b>TOTAL EXPENSES</b>	<u>\$720.00</u>	<u>\$885.00</u>
<i>Receipts:</i>		
\$9. per dozen—80 dozen	<u>\$720.00</u>	100 doz. \$900.00
<b>NET PROFIT</b>	<u>0</u>	<u>\$ 15.00</u>

The shirt-making business is one where labor efficiency doesn't increase greatly as activity goes up. It isn't like steel or cement, where when you go from 50 percent to 75 percent activity, you cut down sharply the labor-hours per ton. In the figures above, all the gain that the Elite Company shows is what it makes from the saving on its overhead. It's still figured that it takes one hour of a worker's time to make each shirt, just as before.<sup>1</sup> But running at 100 dozen a week instead of 80, the overhead costs are less per shirt, so there is something to split up among the workers and the management. The gain to workers could be split all to shorter hours, or all to higher pay. Here it's been divided: Hours per week have been cut 5 percent from 48 to 46, quitting earlier on Saturdays. Pay per hour has been

<sup>1</sup> Labor union officials in this industry claim that there would be some gain in labor efficiency with larger output. To the extent this is true, it would make the gains from Industrial Expansion even larger than those shown here.

increased from 25 cents to 27.2 cents or by 9 percent. Even with the shorter hours, pay per week has gone up from \$12 to \$12.50. At the same time six more workers have been taken on.

How do these changes compare with the situation before Industrial Expansion?

Hours per week	change from	48 to	46	4% decline
People at work	" "	20 to	26	30% gain
Weekly income per worker	" "	\$12 to	\$12 50	4% gain
Total payroll	" "	\$240 to	\$325	35% gain
Return to owner	" "	\$25 to	\$40	60% gain
Cost of living (based on price of shirts)	remain at	\$9		no change

This illustrates concretely the way in which Industrial Expansion has something for everyone. Employment has gone up 30 percent, and pay rolls 35 percent. The Elite Shirt Company will have no difficulty selling its increase of 25 percent in output. Each worker is working two less hours per week, and getting 50 cents more for the week. Management is getting a slight profit compared to none before. And these gains are all real gains, for prices have not risen. The cost of living remains unchanged.

The workers in the Elite Company will be disappointed that they gain so little under the first year of Industrial Expansion. After all, \$12 50 a week is still low pay, and 46 hours is still a long week. Of course, more people are at work. They are glad that some of their sisters and cousins who hadn't jobs before have got real work now. But still, they had hoped for much bigger and more substantial gains from the new program.

The workers can still be hopeful, though. The first year

of Industrial Expansion is just a starter. The gains they have gotten that year, real gains in buying power, are just a small sample of what they will get later. Each successive year, hours will go down until reasonable hours are secured. By the fourth year under Industrial Expansion, the weekly books of the Elite Shirt should look something like this:

*Expenses:*

Rent, heat, interest and other fixed charges	\$ 135.00
Personal drawing account	25.00
Cost of materials and power	704.00
Labor—42 workers at \$20.25	850.50
TOTAL EXPENSES	<u>\$1,714.50</u>

*Receipts:*

160 dozen at \$11.	\$1,760 00
NET PROFIT	<u>\$ 45.50</u>

A number of different considerations have been involved in working out this statement. First, the price of shirts has been boosted from \$9 to \$11 a dozen. This increase would be offset by price reductions in industries like automobiles, where the opportunities for savings in labor and in overhead costs with increasing output are larger. Secondly, the cost of materials has been raised 10 percent per shirt. This would cover an increase of 20 percent in the price of cloth at the mill, offset in part by reductions in freight rates, coal, and power. Third, overhead costs have been left unchanged. Higher interest charges for more operating capital will be offset by reduced machinery costs, owing to declining prices for machines and tools. The machine tools industry is like automobiles, in that steady full output would greatly reduce labor and other costs. Finally, with shorter hours (40 per week), steadily rising wages, and better and cheaper machinery, it is assumed that output per hour

worked has gone up gradually, so that each worker is finishing  $11\frac{1}{2}$  shirts in 10 hours on the average, instead of 10 shirts as before.

With all these changes, how does the position of the workers and others in the Elite Shirt Company compare with what it was before Industrial Expansion?

Hours per week	reduced from 48 to 40	20 percent decline
People at work	increased from 20 to 42	more than doubled
Weekly income per worker	increased from \$12 to \$20.25	69 percent increase
Total pay roll	changed from \$240 to \$850.50	more than tripled in amount
Return to owner	changed from \$25 to \$70.50	almost tripled
Cost of living	(including reduction in prices in other industries)	no change

Of course, this would still be far from Utopia. There would still be much to do to push the pay of shirt workers still higher. As other more mechanical industries made still greater strides, in reducing labor costs and prices for their products, the price of shirts might be still further increased. As efficiency in producing shirts increased, higher wages would be aided. Both changes would make it possible to raise pay in the textile industry without raising living costs. In later years, as efficiency in this and other industries continued to rise, pay would be pushed on up further and further.

Even though they might seem moderate at first, all the gains from Industrial Expansion would be real gains. High wages would not be nullified by higher costs of living.



Each worker would earn more money, 69 percent more in the case just shown. Costs of living would not increase as a whole, so the real standard of living would go up as fast as the earnings. More people would be employed, twice as many in the case above. Hours per week would be reduced to reasonable levels. Returns to owners and capital would be increased to reasonable return for management and investment. The production of shirts would be doubled, and the production of everything else would similarly be greatly increased. More would be produced and consumed. Everyone could have more, without anyone having to take less.

As compared to the 30-hour bill, Industrial Expansion is less spectacular but more substantial. The benefits of a 30-hour bill would seem large at the start but then would gradually disappear. The gains from Industrial Expansion would seem only moderate at the start, but would steadily grow more and more.

Industrial Expansion provides for a sustained and continuing increase in production and business activity. It charts the direction along which lower hours and continually rising wages may safely be attained.

XXX

*Can monetary and fiscal policies alone  
produce abundance?*

For more than 25 years there have been attempts to maintain continuous prosperity by manipulating the financial mechanism. The passage of the Federal Reserve Act in

1913 was believed at the time to be one of the most positive steps toward planning monetary policies to lessen business depressions.

The original monetary control powers of the Federal Reserve System were largely limited to changing the rate of interest on funds advanced to member banks. The System did facilitate the flow of funds from one section of the country to another, and so made the banking system more efficient. The ability of banks to rediscount their collateral at Federal Reserve Banks was intended to make them more run-proof. The principal weapon of the system in combating business cycles, though, was to raise its rediscount rate in times of boom, and to lower it in times of depression. Sharp increases in the rate in 1920 apparently helped end the postwar boom and precipitate the depression of 1920. Despite prompt reductions in rediscount rates, recovery from that depression did not start until prices of building materials and other industrial products had declined to a point which touched off the postwar housing boom.

After a time the Federal Reserve System developed a second monetary control gadget, in its so-called "open-market operations." The Federal Reserve Banks had the right to buy or sell government bonds and other government securities in the security markets. They found that when they bought bonds, that put more money in the hands of the member banks and encouraged them to adopt a freer lending policy. When the Reserve Banks sold bonds, this depleted the reserves of member banks and they had to borrow to make them up. The open-market policy could thus be used as a club to make the rediscount-rate policy effective.

From 1922 to 1928 it seemed that the rediscount rates and open-market operations of the Federal Reserve Sys-

tem were helping maintain a fairly even price level and a stable prosperity. In 1928-29 the stock market, encouraged by rapidly rising profits, and supported by loans of idle business funds direct to brokers, went soaring off to impossible levels. Federal Reserve interest rates were raised higher and higher in the attempt to check the speculative boom, without immediate success. Finally, in late 1929, the bubble burst. The unstable character of the post-war prosperity, here and abroad, became increasingly clear as the depression steadily deepened from 1929 to the spring of 1933.

During those four years of shrinking employment and business activity the Federal Reserve System tried to start or encourage recovery by reducing its interest rate to exceedingly low levels. In the spring of 1932 it began buying 50 to 100 millions of securities every week, hoping that this steady flow of funds would force banks to loan more and start recovery. But the funds had slight effect. From March 1 to August 1, 1932, while this policy was in operation, the excess reserves of member banks (those in the Federal Reserve System) increased 262 millions of dollars, but the total loans of reporting member banks shrank by 1,592 millions of dollars.<sup>1</sup> The excess reserves of banks show how much unused lending power they have. The larger the excess reserves, the more their actual loans are below the amount they could readily loan. But for the bank loans to increase, it is not only necessary that they be *able* to loan. It is also necessary that someone be willing to borrow, and that the bank be willing to loan. As long as business is going down, there is no reason for businessmen to seek new loans. As long as prospects for profitable use of money are low, banks are unwilling to take a chance. So

<sup>1</sup> Federal Reserve Board figures.

loanable funds may pile up at exactly the same time that funds in use and business activity continue to shrink.

The experiences of 1929 to 1933 indicated that the Federal Reserve operations of that period, with respect to interest rates and open market purchases and sales, were better as brakes than as accelerators. They could help check a boom when it was going too high or too fast, but they did not start recovery when a depression was once under way. And they could check a boom only at the danger of starting a depression. They could throw on the brakes at times of danger, only to find that the business brakes stayed locked until the motor was dead. After that, letting off the brakes would not start the motor.

In times of depression, banks would not lend money and businessmen would not borrow. Yet if recovery was to come without a long and complete deflation, someone would have to start spending money. Under the New Deal this was accomplished. It was done, however, not through manipulating the controls of the banking system. Instead, it was done by the nation borrowing from the banks and having the government itself spend money, spending much more than it was taking in in taxes. Since this was carried on through the financial operations of the Federal Government, it has been called "fiscal policy" as compared to the "monetary" or "banking policy" of the Federal Reserve System.

There is no need here to describe in detail the various ways by which the New Deal increased federal expenditures from 1933 to 1936. That story has been told many times. The amounts spent were large, large enough to influence the business activity of so great a country as the United States. Between January 1933, and January 1937, the Federal Government spent 12 billions of dollars more

than it took in. And the policy worked. Increasing bank reserves in 1932 had had little effect. But increasing the buying power in the hands of consumers in 1933 and thereafter did make things happen. From 1933 to 1937 the national income increased steadily. For the four years, 1934 to 1937 inclusive, the national income totaled 239 billions of dollars. If it had stayed at 1933 levels through those four years, it would have totaled only 169 billions, or 70 billions less. By borrowing and spending 12 billions, the Federal Government stimulated an increase in the nation's production of goods and services 6 times as large.<sup>1</sup>

If the spending program was to work, though, it would have to stimulate a continuing recovery in private business activity and in private investment. Eventually the government would have to stop increasing the debt. Presumably by that time private investment would be expanding so fast that the public spending could be withdrawn without checking the recovery. For pump-priming to be fully successful, business activity would have to go on expanding for several years after government spending stopped. In that period of prosperity, the government would collect more in taxes than it spent, and so would cut its debt down to normal proportions again. Then when the next period of depression came around the government debt would be low enough so that it could again increase its debt and again prime the pump through spending.

Some businessmen are beginning to believe that it is not necessary to ever balance the budget in the sense of getting all expenditures below all receipts. They point to the fact that corporations separate current expenditures from investment in plant expansion, and take credit in their balance sheets for the net increase in assets. They believe that

<sup>1</sup> See Appendix, Table 1, for data on national income produced.

the Federal Government, likewise, should take credit for capital investment, and should deduct the net increase in assets (after allowing for depreciation) before showing its annual deficit or surplus. Sweden has recently adopted such a two-way budget. If we were to adopt such a principle of federal accounting, it would be possible to continue to make large public investments as contributions to buying power, and yet show a balanced budget. It may be that sometime in the future it will be possible for government to follow the accounting practices in this respect that have long been standard practice for corporations.

Whatever new accounting techniques may be adopted in the future, for the present the fiscal policy of pump-priming or of deficit financing does not seem to have worked any better than the earlier policy of monetary and banking control. Things went well from 1933 to 1936, as long as the government was continuing its spending. Half of all the dollars spent from 1933 to 1937 came from borrowing. In 1937 the government began to cut down its spending very rapidly. In the first half of that year it spent only \$1.11 for every dollar it took in, in the second half, only \$.99.<sup>1</sup> The budget was practically balanced, just as business asked that it be. But instead of recovery continuing, private investment began to shrink too. Soon, and shockingly swiftly, we were plunged into a new depression, second in severity only to that one from which we had just been emerging.

The earlier attempts to use interest rates and open-market operations to bring stable prosperity had been hesitant in character and small in extent. Had the action been more

<sup>1</sup> This is for the amount actually spent in cash, after adjusting for transactions involving trust funds. It isn't true spending when the Treasury takes money out of one pocket and puts it in another, labelled "trust fund." Yet this is called spending in the Treasury reports.

positive and vigorous, the monetary controls might have proved somewhat more effective.<sup>1</sup> Similarly, there is some reason to believe that the fiscal, or pump-priming, policy did not have quite a fair test in 1933-37. There is evidence that we cut off spending too abruptly instead of tapering off gradually.

We had increased spending gradually. Our net excess of public expenditures above tax receipts had been less than 200 millions a month in 1933. From that point it was increased gradually until in mid-1936 it amounted to 400 to 500 millions a month. The payment of the veterans' bonus put a big further peak on spending. Then, in late 1936 and early 1937, spending was cut sharply while tax receipts were rising, so that by the spring of 1937 the outflow of government funds had fallen below 100 millions, and by that fall had stopped almost entirely. Instead of tapering off spending over several years, we cut it off suddenly almost within 12 months.<sup>2</sup> The recession followed. Many economists believe if we had tapered off spending more gradually, business might have had time to take up the slack.

There is a second reason why pump-priming did not work. This reason is probably even more important than the speed with which spending was turned off and turned on. During the recovery period after 1934, business concerns in those fields where competition is controlled, increased profits very greatly. Output per worker was rising with larger production. Instead of sharing this gain

<sup>1</sup> One of the outstanding proposals for more effective banking and monetary control is given in Irving Fisher, "100% Money," Adelphi Company, 1935.

<sup>2</sup> For the net expenditures by the Federal Government, adjusted so as to show the net contribution to national buying power, see Arthur D. Gayer, "Fiscal Policies," *The American Economic Review*, Vol. XXVIII, No. 1, Supplement, March, 1938, p. 90, especially the chart on page 98.

with workers in higher wages, or with consumers in lower prices, these concerns mostly kept it as larger profits. Wage rates showed practically no increase from the fall of 1934 to the fall of 1936.<sup>1</sup> Then the C. I. O. finally began to exert pressure for wage increases. In many industries these wage increases could easily have been paid from the larger profits. But instead businessmen at once began to jack up prices as much or more than they were raising wages. From the fall of 1936 to the spring of 1937 there was a regular business orgy of price-raising, stocking up inventories, and other phenomena associated with a period of business speculation. Prospective large crops of wheat and cotton and government warnings finally made businessmen realize in the spring of 1937 that prices were not going to keep on rising forever. After the bubble burst, businessmen began to take stock of their situation. They discovered that between the fall of 1936 and the fall of 1937 they had increased their inventories by about five billion dollars' worth of goods.<sup>2</sup> Thereafter, they began to draw on their inventories instead of ordering ahead. A disastrous decline in industrial activity followed.

A further serious effect of the rising prices was on the building industry, as already referred to elsewhere. Costs of building in the first half of 1937 rose out of proportion to rents. The promising building boom, which had been moving forward vigorously, was nipped in the bud. In March, 1937, contracts for housing showed a gain of 73 percent over the same month a year earlier. By September,

<sup>1</sup> According to the Bureau of Labor Statistics, average hourly earnings in factories averaged 55 8¢ in August and September of 1934, and 57.0¢ in the same months of 1936.

<sup>2</sup> See D. C. Elliott, "A quarterly series of Manufacturers' Inventories," *Jour. Amer. Stat. Assoc.*, Vol. 33, No. 202, June, 1938, pp. 349-352; and *Dun's Review*, October, 1938, pp. 9-16.



they showed a loss of 21 percent below the corresponding month of 1936.

The rise in profits, from 1934 to 1936, carried with it a rise in stock prices. When the inflationary boost in prices began in 1936, stocks reflected this, and were carried up to new high peaks in the spring of 1937. After the boom burst, and speculators began to realize that prices and profits could not go up indefinitely, the decline in stock prices helped discourage investment, and to intensify the subsequent business declines. The stock market served in 1936-37, as in earlier boom periods, to magnify and exaggerate the fluctuations for which industrial policy was directly responsible.

The decline in government spending in 1937 thus came on top of a weak industrial and speculative situation, all set for a crash. The two together produced the largest and fastest contraction in business activity ever recorded in any 6 months' period in our economic history.

The fiscal operations of the government, or pump-priming, were largely checkmated by the price and wage policies of business. The spending program started activity up. But the controlled industries tried to keep too much of the resulting profits for themselves, and shared too little with their workers. They sabotaged the very recovery on which their continued profits depended.

It appears, therefore, that fiscal operations alone are not enough to produce a lasting and full recovery. The actions of the large industrial concerns which dominate price movements in their fields may prevent recovery, once started, from continuing automatically. So long as these concerns operate in this way government cannot stop with monetary measures or fiscal stimulation. It must go further and concern itself with the price and wage policies of industry, and

possibly with the production policies as well. Obviously Industrial Expansion is only one of many possible lines of government action in this field. The following chapter explores other possible ways in which action could be taken, and contrasts them with Industrial Expansion.<sup>1</sup>

The analysis just presented helps us understand why periods of recovery in the past have led inevitably into booms and then recessions. The actions of business from 1934 to 1937 were nothing new. They repeated the policies of 1921 to 1929. They repeated the policies of other periods of economic recovery. Business has not learned that recovery can be enduring only if a fair portion of the gains is turned over to workers and consumers. Business has not learned that when profits rise too fast, they can not endure. Business has not learned that if profits are to be sustained over long periods they must be held at reasonable levels even when things are booming. And so periods of inflation, speculation, crisis, and depression sooner or later terminate every period of recovery, long before full employment or full production has been attained.

In 1938, the Federal Government, faced with the new depression, launched a new spending program. In response to the depletion in inventories and the increase of spending, business began rising rapidly in mid-1938. At the same time increasing attention was being paid to the problem of monopolistically-controlled industries. If the spending continues large enough it can certainly get activity to fair levels again. Perhaps it may get business moving fast enough to push the housing cycle, which is just in position for a big expansion, up toward full activity. With the mem-

<sup>1</sup> For a carefully reasoned discussion of the way that a flexible federal budget might be combined with a better tax system, see Henry S. Dennison, Lincoln Filene, Ralph E. Flanders, and Morris E. Leeds, "Toward Full Employment," Whittlesey House, 1938.

ories of the fiasco of 1937 fresh in their minds, perhaps business concerns will be more cautious about boosting prices, and labor unions will be more conservative about demanding big sudden increases in wage rates, and Congress and government agencies will be more careful to taper off spending slowly enough so as not to produce a sudden jerk. If all these things work together effectively, it may prove possible to start recovery by spending, and then this time taper off spending and have the recovery keep going for several years thereafter. With the lessons learned from the first experience, pump-priming may work better this second time. It may produce a continuing period of prosperity over a term of years before the next depression comes. But for the reasons just explored, it can never become the sole or even the major dependence in the search for full and sustained production and employment.

The possibilities of monetary policy and of fiscal policy have not been fully or fairly tested. No matter how effective monetary policy might be made, small changes in interest rates are but a feeble weapon with which to attack the grave conditions that confront us now and in the foreseeable future. Tax policies, with increased emphasis on income and inheritance taxes, can aid in the redistribution of income and so help somewhat toward maintaining consumption. Fiscal policy operations, through compensatory public expenditures in times of depression, have become a useful and probably permanent weapon for coping with periods of contraction. But our greatest problem is not that of ironing out the fluctuations in business activity, but rather of raising the abnormally low level around which those fluctuations take place. While monetary and fiscal operations, wisely conducted, may continue to prove a useful weapon to narrow the range of the fluctuations, far

stronger action is needed to elevate the whole plane of production and employment nearer to that of which we are capable. That is the job for which some powerful program such as Industrial Expansion is needed.

## XXXI

*Are cooperatives the way to plenty?*

The idea of a cooperative society is an alluring one to many enthusiasts. In such a society, they say, all trade would be carried on by cooperative organizations. Processing and manufacturing would be done by concerns owned by consumers, through their wholesale and retail consumers' cooperatives. The raw materials would be purchased from farmers' cooperative marketing associations, or produced in mines and oil wells cooperatively owned. City people, as consumers, would buy from their retail cooperative. As workers, they would be employed by the cooperative system. Unnecessary duplication of selling facilities, deception of the consumer as to quality, excessive expenditures for advertising, and diversion of income through profits would automatically disappear. Rational planning and continuous operation would necessarily characterize the system of cooperatively owned and operated employment, production and distribution. Building up cooperatives might bring us gradually nearer a fully cooperative economy. Is that the best way to plenty?

Although no country has yet approached this ideal of a cooperatively operated economy, the development of cooperatives in several Western European countries has pro-

duced significant results in their economic systems. This is particularly true in Great Britain and in the Scandinavian countries.<sup>1</sup>

In Great Britain the Rochdale Societies, starting as small retail selling cooperatives, have grown back through consolidated purchase and manufacture. In consequence these concerns, handling about one-seventh of the retail business of Great Britain, now occupy a dominant place in English economic life, with an annual business about twice that of our largest mail-order concerns. In the Scandinavian countries the cooperative movement has grown so powerful that in some cases it exercises a significant control over the price policies of monopolistic industries. The cooperatives there, as in many other countries, operate many factories of their own, producing flour, margarine, shoes, galoshes, tires, fertilizer, light bulbs, and other products. In many of these the cooperative production has broken the previous high cartel prices. Where monopolistic policies of large concerns have held prices too high, the mere threat of establishing new cooperative factories has frequently been sufficient to bring about an immediate reduction in corporate prices. The cooperative movement in Sweden, handling about 10 percent of all retail sales and about 15 percent of foodstuffs, has thus not only provided products for its members at less cost and of assured quality, but has influenced the general level of prices to the benefit of all consumers, members and non-members.<sup>2</sup>

Consumers' cooperation in the United States began in

<sup>1</sup> For a brief summary of the accomplishments of European cooperatives, see "Report on the Inquiry on Cooperative Enterprise in Europe, 1937," United States Government Printing Office, Washington, D. C., 1937, p. 4.

<sup>2</sup> "Report of the Inquiry on Cooperative Enterprise in Europe, 1937," pp. 208-20, 223-36.

1845. As yet, however, it has not grown to anything like the size or power of the cooperatives abroad. On the contrary, cooperation here has been most important among farmers. There it has shown its greatest strength in selling rather than in buying. Starting usually as small local concerns, and providing more efficient methods of handling and processing than competing private selling agencies, farmers' marketing cooperatives have grown and federated into state, regional, and even national associations. They have become the dominant sales agencies in a number of fields. Farmers' marketing cooperatives now handle roughly one-quarter of all farm sales. In some fields they have made notable contributions toward more efficient marketing methods, improved processes or products, and a more orderly distribution of the product. Sunkist oranges, Sunmaid raisins, Land-O-Lakes butter, P.E.P. eggs, are just a few of the products that cooperation has made standards of value in the retail markets.

The leaders of farm cooperative groups have become powerful figures in Washington, comparable with the leaders of the great "general" organizations of farmers, the Grange, the Farm Bureau, and the Farmers' Union. These cooperative spokesmen have had much influence on farm legislation. Cooperative marketing has increased, through organization, the power of farmers. It has been primarily interested in the interests of farmers as producers, however, and has not generally concerned itself with the mutual interests of producers and consumers.

More recently cooperative buying has begun to make rapid strides among farmers. It has developed through special buying cooperatives, through buying departments of cooperative marketing associations, and through cooperative sales agencies affiliated with the general farm organi-

zations. Consumers' cooperative wholesale concerns, each buying for a group of consumers' cooperative retail associations, are a special development of the past decade. They are growing rapidly in a number of scattered areas, especially in the Midwest. Today grease, oil, feed, and fertilizer are all being processed cooperatively for cooperative sale. Tires and tractors are being manufactured for sale under the cooperative brand. A cooperative refinery is about to be erected. The G.L.F. (Grange-League-Federation<sup>1</sup>) of New York is doing about a 35 million dollar a year business at wholesale alone. The Eastern States Farmer's Exchange at Springfield, Massachusetts, is doing about 20 millions. At Cloquet, Wisconsin, a single retail cooperative is selling over a million dollars worth of consumers' goods a year. In addition, cooperative fire, auto and liability insurance, especially among farmers, has been growing steadily and has become an important business.

The sales of consumers' purchasing cooperatives now amount to about 400 million dollars a year among farmers, and slightly under 100 million dollars a year among urban cooperative associations.<sup>2</sup> The consumers' cooperatives in the cities have developed at a number of separate points, and cover a wide range of activities. They operate laundries and cleaning establishments, cafeterias, and oil and gas stations. They sell groceries, clothing, and other staples.

<sup>1</sup> The New York members of the Grange (The Patrons of Husbandry), The Dairymen's League Cooperative Association, Inc., and the Farm Bureau Federation, merging their cooperative buying in a single agency.

<sup>2</sup> These figures are based upon the reports on the sales of consumers' cooperative purchasing associations prepared by the Bureau of Labor Statistics, primarily for urban cooperatives, and by the Farm Credit Administration, primarily for farmers' cooperatives. There is some overlapping in the two series of reports. In preparing the estimates given in this paragraph, the duplication has been eliminated as far as possible.

In some areas they have their own cooperative wholesale agencies. In others they have joined with the farmers' wholesale organizations.

Among farmers, cooperative buying is now growing much more rapidly than cooperative selling. Cooperative buying is growing about equally rapidly among city consumers. From 1933 to 1937 the estimated total volume of consumer cooperative sales, farm and urban combined, grew at an average rate of 24 percent per annum, while national income increased at an average rate of 12 percent per annum. Consumer cooperation was thus occupying a constantly expanding place in the national economy.

Cooperative buying has helped unite the interests of farmers and city people in a way that cooperative marketing never did, despite its much greater size. Many of the wholesale cooperatives now serve urban and rural localities alike. Cooperative literature is beginning to stress the mutual interests of farmers and city people. Thus a recent report of a consumers' wholesale <sup>1</sup> states.

"the scope of your cooperative was broadened, . . . operating . . . to wipe out that line of demarcation which exists too often between country and city, uniting them without regard to race, religion, or political belief. All are consumers."

Along with the tightening of mutual interests between city and country, cooperative groups in the United States have begun to establish business relationships with those in other countries. Cooperative wheat from Kansas has been sold to the English cooperatives. Cooperative oil, grease, and other products have been shipped to cooperative so-

<sup>1</sup> Consumers Cooperative Association, "10th Annual Report," Kansas City, 1938.



cieties in Canada, Scotland, the Netherlands, France, and Bulgaria. Internationally as well as internally, cooperation is building ties of mutual interest.

The widening social vision on the part of leaders in farmers' cooperatives, and the increasing range of the activities carried on by cooperative organizations, indicates that some day cooperatives may exercise as vital a force in the economic affairs of this country as they do in the Scandinavian countries. But as yet they handle only slightly over 1 percent of the retail sales of the country.<sup>1</sup> While our cooperative associations have had some influence on fertilizer and gasoline prices in limited local areas, they are still too small for general influence. These facts indicate that we should not place too much reliance on cooperation for the immediate future. Even though it is growing rapidly, there is a speed limit beyond which sound growth cannot occur. The forced growth from federal loans during the Federal Farm Board period did lasting damage to many farmers' marketing associations. Leaders of the consumers' cooperative movement are justly afraid of too easy credit like that of the Farm Board and too rapid expansion.

Encouraging as the cooperative movement is, and stimulating as it may be to the individual members in their well-merited pride of achievement and ownership, we cannot expect it to grow rapidly enough to solve the economic problems which press us today, and which challenge us for the decade ahead. This is clearly recognized by the cooperative leaders themselves. Thus Howard A. Cowden of

<sup>1</sup> In 1929, with a national income paid out of \$79 billion, retail sales of commodities totaled \$49 billion, according to the Census of Retail Distribution. Accordingly, in 1937, with a national income of \$69 billion, retail sales may be estimated at about \$43 billion. Consumers' cooperative sales of about \$500 millions would thus be 1.1 percent of total retail sales.

the Consumers Cooperative Association declares in their 10th Annual Report:

"While Consumers Cooperative Association and similar cooperative groups are building assets for people who work, and while they are returning buying power to those same people, they have made only a beginning. . . . The cooperatives still have a long road ahead of them before they begin to affect our national economy to the degree they should, to the degree that would be both healthful and hopeful. We must continue to build."

Cooperation is a significant social force, then, and one which may some day grow powerful enough to exercise a major influence toward better organization of our society. In the meantime there is still need for more immediate action, such as Industrial Expansion, to deal with unemployment and low production in the nearer future.

Industrial Expansion would not attack many of the problems with which cooperation is concerned. It would not directly reduce the inefficiencies of marketing, nor provide the consumer more reliable products, nor reduce the excessive costs of advertising. It would merely concern itself with increasing the total of production and employment through the existing business organizations, with their existing methods of work and habits of doing business, modified somewhat with respect to wage, price, and production policy.

To the extent that Industrial Expansion raised the income of the poorest workers, and gave them a wider margin above bare subsistence, it might even slow down somewhat the growth of cooperatives. Consumers' cooperation makes its fastest growth, however, when its patrons have fairly regular employment, and can afford to invest small sums for the necessary cooperative capital. But cooperative leaders will

not grumble even if full employment and decent wages should place some obstacles in their path. They believe they can demonstrate that cooperation can supply consumers better articles at lower costs, with the increased satisfaction of dealing with their own concerns, and with the pride of participating in a new social movement. So long as cooperation can deliver on these counts, and with the vitality it is now showing, cooperation will continue to grow until it assumes a significant place in the life of the country. There is need for both Industrial Expansion and Cooperation. Each has a different task to perform. They are not competitive but complementary.

## XXXII

*Can rearmament solve unemployment?*

The events of September and October, 1938 shocked the people of America profoundly. They revealed that we were living in a world where brute force, reckoned in the thousands of airplanes, the millions of armed men, and the tons of bombs, was the only power that counted among the so-called civilized nations. Rearmament is going on at a furious pace in western Europe. It appears that we too will soon start building up our military and naval power into a size and readiness commensurate with that of the ruthless dictatorships. What will be the final outcome of this world-wide race to rearm no man can foresee, but everyone can see that no nation, unarmed, is safe.

If we really entered the race to arm, that might produce profound changes in our society. War fevers are always

bad for democratic processes. But here we are concerned with the economic, rather than the political, aspects of rearmament. If we greatly expand our military power in the months and years ahead, will that automatically solve our problems of unemployment and low production?

With our fortunate geographic position we have spent less of our national income on arms than other great powers. In the fiscal year ending June 30, 1938, we spent just over one billion dollars on national defense, including both the Army and the Navy. This represented less than 1.5 percent of our national income for 1937. In contrast with this amount, England is spending about 1.7 billions on defense in 1938, and Germany about 4.4 billions. The 1937 defense expenditures represented 6.6 percent of her national income, for England, and 15 percent, for Germany.<sup>1</sup> Germany's expenditures are comparable with our military expenses at the peak of our World War effort. We spent 11 billion dollars on the Army and Navy for the 1918-19 fiscal year, or 16 percent of our 1919 national income of 66 billion dollars.

Our present military expenditures are small compared to our wealth and income. We could increase them greatly without immediate effect on our economy. That applies particularly to airplanes, where apparently the pressure for enlargement would be greatest. The entire appropriation for the Air Corps of the Army and the Bureau of Aeronautics of the Navy, including the cost of new aircraft, was 108 million dollars for the fiscal year ending June 30, 1938. We could double or triple our present expenditures on air force with but slight effect on our general economic position.

<sup>1</sup> William T. Stone, "Economic Consequences of Rearmament," Report of Foreign Policy Association, New York City, October 1, 1938.

The first effect of rearmament might be merely to change the character of our public works construction. Today, through P.W.A. and W.P.A., large amounts of public funds are going into the construction of schoolhouses, roads, bridges, sewer systems, office buildings, and other structures. At first all we might do would be to cut down on these things and to buy instead airplanes, rifles, anti-aircraft guns, and cruisers and battleships. While that would mean more steel and aluminum, and less cement, gravel, and brick, the changes might not be so great as to cause any serious industrial shortages or bottlenecks. If military preparedness continued to be financed the same way that public works had been financed before, the only big change in the situation would be the difference in the usefulness in what we were building. In the world of today, tanks and machine guns seem to have their values, along with schools and grade separation structures.

Although rearmament initially would be much like any other kind of public works, it would soon create new problems. Arms races increase in intensity as they go along. We would have to be prepared to continue to expand our armaments for a considerable time ahead. After a time, the need for materials and skilled mechanics to build weapons might begin to compete with demands for more peaceful products. Many of the industries concerned—copper, chemicals, steel—are industries whose prices and profits have tended to skyrocket before as demands increase. Unless some conscious public control was imposed on industrial prices the expanding military demands might cause a new upswing similar to that which occurred in 1936-37. Such a period of rapidly rising prices might again check the general industrial expansion, and start a new recession.

If the armament expenditures continued to expand, cov-

ering their cost would create other new problems. Our national debt is already so heavy that large new expenditures would soon have to be offset by new taxes. What the effect would be would depend on how the taxes were levied. They might be imposed on those with moderately good incomes, say by increasing the income taxes on those with incomes of \$5,000 or more, and by closing the loopholes in our inheritance tax laws. If that were done a good deal of new taxes would come from funds that otherwise would go into excess savings. Buying power for consumers' goods would be reduced but little, while the diversion of the funds to rearmament would increase the total of production and employment.

The new taxes might, on the other hand, take the form of sales taxes or pay roll taxes. If that were done, they would fall more heavily on the poor than on the rich. They would mean that in order to produce more guns and bombers, we were producing less furniture, fewer passenger automobiles, and less clothing. The expansion in expenditures for military uses would be offset by a contraction of expenditures by consumers, and no increase in employment would result. Such taxes would simply force the lower two-thirds to contribute their money to buy bombs and uniforms instead of spending it for bread and clothes.

Continued rearmament thus would raise problems as to whether we would finance the program in such a manner as to increase employment or to reduce consumption. Equally serious would be the problem of what we would do after we finished rearming. Regardless of whether the armament race ended in a new war or in a disarmament agreement, at the end we would have to shift back from producing the means of destruction to producing for the needs of our people. Many industries, such as munitions,

rifles, airplanes, shipbuilding, would be expanded far beyond the normal demands, while other industries would be too small. Once the industrial structure has been concentrated on military objectives, shifting it back to ordinary peace-time demands involves a series of drastic internal readjustments. That readjustment is one of the greatest questions facing Germany today. If she does avoid war, and does cease expanding rearmament, can she stand the shock of readjustment to more normal living?

The economic readjustment problems created by a heavy rearmament program have been well stated by an English publication: <sup>1</sup>

“At present the industrial structure is being distorted by the exigencies of rearmament, the productive capacity of many industries such as iron and steel, shipbuilding and certain branches of engineering, is being expanded to a level which, apart from rearmament, would be greatly in excess of our requirements. When rearmament is at an end, we shall be confronted accordingly with a problem of industrial demobilization similar to those which arose after the war; and this problem will be the more difficult in that the industries in which redundant productive capacity is to be expected are largely the constructional industries which tend in any case to be the worst sufferers in an industrial depression.”

Large-scale rearmament might, for the moment, help to make new jobs and to increase production. That new activity, however, would be at the cost of an unbalanced development that would threaten our future economic stability. It would be possible to combine rearmament with Industrial Expansion. Our ability to protect ourselves

<sup>1</sup> *The Economist*, June 11, 1938, p. 595.

against aggression would be greatly strengthened by the general increased production which Industrial Expansion would create. At the same time the planful methods of Industrial Expansion would help to cushion the subsequent readjustments after we finished rearming. It was in part the failure to plan our post-war readjustments which made the economic heritage of the World War so disastrous.

Whether we wish it or not, the pressure of world events is hurrying us forward into unknown dangers. A great rearmament program would carry with it both additional protection and new difficulties. Conscious advance planning, of the sort provided by Industrial Expansion, will be necessary if we are to weather the economic storms of a warlike world without subsequent disaster.

### XXXIII

#### *Can the problem be solved other than through Industrial Expansion?*

We have examined single-industry action, the 30-hour week, monetary and fiscal policies, cooperative buying, and rearmament. No one of them seems to be sufficient to make jobs for all our workers and keep them at work. Instead, some method seems to be needed which is capable of controlling industrial policy as a whole. Industrial Expansion is one such method. Are there other methods of industrial control which might be used?

Short of government ownership and operation, four different forms of industrial control have been discussed in



America. These are: (1) industry self-regulation; (2) restoring competition through "trust-busting"; (3) restoring competition through yardstick competition; or (4) some form of economic planning similar to Industrial Expansion.

#### INDUSTRY SELF-REGULATION

The idea of industry regulating itself through its own organizations is popular with American businessmen. The idea is constantly reappearing. The N.R.A., as it actually operated, was an attempt by businessmen to run their own affairs. As has already been shown, that meant in practice running their own affairs so as to make the biggest profits, not running them so as to achieve the largest production or the fullest employment.<sup>1</sup>

When industry runs its own affairs it is likely to operate much as the "cartels" do in Europe. A cartel is a group of concerns in the same industry that combine together to control their operations. Usually they allocate production prorata among themselves, and then limit the output to that quantity which can be sold at satisfactory prices. They set the prices. Usually the prices are high enough to insure profits to the highest-cost concern. That means that the price of the product to the consumer is set by the costs in the most inefficient concern.

Businessmen are interested primarily in profits. In the long run, full employment and full production would yield businessmen larger profits over a term of years. But businessmen are "practical." They think almost entirely in terms of the immediate existing situation. Left to themselves they rarely seem able to see the long-time profits that might result from temporary losses. They are usually unwilling to reduce prices or increase wages in the hope that

<sup>1</sup> See Chapter XVI.

a general industry-wide expansion of production might follow.<sup>1</sup> Instead, they tend to hold up prices and restrict output in the hope of making the largest possible income in the face of the existing limited markets.

The leaders of business should not be blamed for this situation. They, like everyone else, are the product of their environment. They cannot be expected to act differently from what their environment forces them to. As business operates today, it has no organization through which a concerted expansion can be brought about. Giving industry the right to regulate itself, from its own point of view, would tend toward contraction rather than expansion. This is clearly shown by the results of past efforts at business self-regulation, both in Europe under the cartel system and in America under the N.R.A. Although organization for expansion is needed, that organization cannot be secured through business self-regulation.

#### THE TRUST-BUSTING APPROACH

Many people believe that the solution lies in restoring competition. They believe we should break up the large concerns into dozens or hundreds of small vigorously competing concerns. Our antitrust legislation is all based on this idea. We find it in the opinions of Justice Brandeis and in the writings of his followers. Is trust-busting the way out?

There is real question whether we could break up our present big concerns without a great loss of productive efficiency. In many industries the high output per worker depends upon assembly lines and other mass-production

<sup>1</sup> The action of the U. S. Steel Corporation in reducing steel prices in June, 1938, without simultaneously reducing wages, is a noteworthy exception to this general statement.

techniques which could not be employed if the plants were smaller. In automobile production, 78 percent of the men work in factories employing 500 men or more. If we made automobiles like we build houses, each car would cost tremendously more. Other industries, such as clothing manufacture, may be better adapted to relatively small factories. But in many industries, such as automobiles, steel or cement, the size of the most efficient plant seems to be constantly increasing.

Large concerns get low costs not only from running big plants, but also from the integration of successive steps in production. U. S. Steel mines ore, hauls it by boat, produces molten pig iron, rolls it into steel, fabricates structural steel, and builds bridges. The Ford Motor Company produces glass and steel and owns the railroad which hauls them to the auto plant. The Standard Oil Company drills oil wells, transports crude oil through its own pipe lines or tankers, refines the product, ships the gasoline, and retails it through its owned or controlled gas stations. Such integration reduces the number of times the semi-finished products change ownership. It widens the area over which scientific management can be extended. Integration of operation thus produces economies of large-scale production beyond those possible in a single plant. A program of trust-busting might break up the large plants into many small ones, and force each step of the integrated industries to be conducted in separate concerns. If that was done the result in many cases would be to greatly increase the costs of production per unit. We would restore competition, but at the cost of greatly reduced productive efficiency.

Not all large corporations justify their size in increased operating efficiency. This is particularly true of holding companies of the type formed by Insull and Hopson. Ap-

parently they were formed solely to make profits for their organizers, without regard to any economic service. They frequently failed even to increase efficiency where it was possible.<sup>1</sup> Financial giants which perform no real service in production should be separated into smaller concerns. The utility holding company law is starting to do that. But even after such purely financial integrations were dissolved, in many industries the concerns would still be so big that true competition would not appear.

The technology of production demands large concerns to produce efficiently. Modern merchandising demands distinctive products that can be advertised on a nation-wide market. Both contribute to the evolution of the giant corporations which dominate most industrial fields. But great corporations suppress competition. They encourage technical advance, but do not pass its fruits on to consumers. They reduce costs of production, but maintain prices. They divert too much of the savings from lowered costs to higher profits, and too little to lower prices or higher wages. They fail to maintain the consumer buying power that is necessary to expand the markets for their products. Speculative booms and economic recessions are an inevitable consequence.

We have had the antitrust laws for almost 50 years, yet monopolistic controls are still growing. Corporations controlled 92 percent of the value of manufacture in 1929. In 1904 they controlled 74 percent. The proportion of assets of nonfinancial corporations under the control of the 200 biggest concerns increased from 32 percent in 1909 to 49 percent in 1929, and in 1933 had gone up to 56 percent.

<sup>1</sup> See "A Report on National Planning and Public Works in Relation to National Resources and Including Land Use and Water Resources", National Resources Committee, Dec. 1, 1934, pp. 352.

Antitrust suits in the past have not been able to restore competition. Recently the Department of Justice has started a more vigorous antitrust policy under Thurman Arnold. It remains to be seen how much change that will produce in industrial price policies. As a whole, it cannot be expected to correct the monopolistic tendencies which are inherent in bigness. And our whole productive efficiency might suffer if it did succeed in making little ones out of the big ones. Even if the holding companies were broken up, and if some of the integrated corporations were separated into different concerns, the size of unit would still be too large for effective competition to prevail. The facts of modern technology dictate that we must have units so large that, in many lines, monopolistic price policies will automatically tend to follow. Instead of seeking to destroy bigness, we must find some way to live with bigness and use its productivity in the interest of all.

#### THE YARDSTICK APPROACH

If we cannot control monopolistic policies through antitrust action, perhaps we can control them by establishing public agencies to compete with them. That was one of the ideas behind the T.V.A. The yardstick idea seems to have been successful. Electrical rates in the T.V.A. area have fallen, and the use of electricity has increased. There are proposals in Congress to set up similar public power authorities in other sections of the country.

The problem, however, is not a simple one. T.V.A. has stimulated increased use of electricity among consumers, but it has also generated resentment and suspicion among its competitors. Not merely in the T.V.A. area, but throughout the country, the electrical utility interests claim they are in danger of public competition. They claim that

the competition is unfair, that the government does not pay the same taxes, interest, and other charges that they have. They claim that too much of the cost of the dams is charged to flood control, and too little to power. They claim that they cannot secure new capital for their business. That is why, they state, they do not build new plants. Yet new capacity is badly needed to take care of the strong upward trend in the use of electricity.

Justified or not, these claims show how private industry reacts to government competition. It may lower its rates, but it does so at the cost of reduced or suspended new investment.

If yardstick competition were to be applied generally to deal with all forms of corporate restraints on competition, public enterprise would have to enter many new fields. Steel, automobiles, cement, aluminum, copper, tires, some types of lumber, paper, gypsum, glass are only a few examples. A long period of confusion and conflict would follow, similar to that in the electric utility field.

At its best, yardstick competition would not produce a planned and coordinated expansion of production and employment. Rather it re-establishes part of the uncertainty of competition. While it might result in lower prices, it achieves these lower prices at the cost of a long period of industrial chaos. It has few elements of conscious and orderly industry-wide planning. There seems no reason to hope it could produce a steady and continuous rise in output and employment, such as would be produced by over-all industrial planning.

#### CONCERTED ECONOMIC PLANNING

We cannot safely give businessmen the power to regulate themselves, nor can we effectively control monopolistic

action through trust-busting suits or through general yardstick competition. Accepting big corporations as an inevitable part of the modern industrial scene, we must find some way to control their policies in the interest of increased production and full and sustained employment. That brings us back to some method for concerted planning of industrial activity, so operated as to protect the interests of all workers and consumers.

Industrial Expansion has been presented in this book as one method of concerted planning. It is not the only method which might be considered. Many other methods have been proposed in the past, or will be suggested in the future. The Industrial Expansion proposal might be modified in many different ways from what has been outlined here, and work as well or better.

For example, there are many different methods that might be used to secure the cooperation of businessmen. Voluntary cooperation would be one way. Processing taxes and benefit payments would be another. Direct compulsion by government, through regulation of interstate business or by penalty taxes, would be a third way. Withdrawal or suspension of special government privileges, such as tariff protection or patent rights, would be still another sanction that might be used.

Similarly, there are many different ways that the programs could be developed and administered. The procedure might be set up on an even more democratic basis than outlined here, or it might provide for less opportunity for public discussion or participation.

The "ever-normal warehouse" feature might be eliminated entirely from the program, and each industry or each concern left to carry the burden of readjusting its operations when their programs did not work out as planned.

In presenting Industrial Expansion as one method of dealing with this problem, there is no intention of saying that that procedure is regarded as *the* one solution. Rather, Industrial Expansion has been set forth to indicate the general lines along which industrial planning for full production might be operated, without sacrificing either democracy or capitalism. It has been described in some detail to show how such a program might work, but the author clearly recognizes that all the details are subject to change and improvement. Not necessarily Industrial Expansion as outlined in this book, or even a program that follows its general organization and procedure, is essential to solve the problem. But some scheme of its broad general character is needed. Rational and conscious planning for increased production must be applied on a nation-wide scale. Some effective method must be adopted which can both develop effective plans for expanding production and employment in our major industries, and then can see that the plans are carried into action. Industrial Expansion represents the type of program which can solve the problem of unemployment and underproduction without destroying capitalism or democracy.







PART SEVEN  
POLITICAL  
ASPECTS



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PART VII

*POLITICAL ASPECTS*

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XXXIV

*Would Industrial Expansion lead us into Fascism?*

The most serious charge made against the Industrial Expansion proposal is that it would lead us toward Fascism. Those who make this charge believe that it would be easy to go from the organization of industry and labor for increased production to a Fascist dictatorship. Many well-intentioned liberals have read the description of the industry organization and planning mechanism for Industrial Expansion, as set forth in my book "\$2500 a Year." From this presentation or from other discussions they have jumped to the conclusion that the scheme for drawing and administering industry programs is so similar to that of Fascist states that, *ipso facto*, it must *be* Fascism. (Conservative-minded readers, on the contrary, have criticized the planning mechanism as being essentially socialistic, and tending toward socialism!)

Thus that arch-hater of Fascists, Dorothy Thompson, paid her respects to the Industrial Expansion proposal in her column of January 7, 1938, in the following terms:

"At a meeting of the National Policy Committee at Goodwood, held in Richmond, Massachusetts, in September of last year, Dr. Mordecai Ezekiel, of the Department of Agriculture, one of the leading blue-print boys of the administration, made this policy perfectly clear. He proposed 'that a plan be worked out which would reward industry for expanding production and pay rolls according to interlocking concerted programs and penalize non-expanding industry, expansion programs to be drawn up by code authorities representing functional interests. . . .'

"Now, what does this all add up to? We are to maintain private ownership but have government control. We are to seek a balanced and expanding economy by contractual cooperation between government and agriculture, with penalties for non-cooperators, which is the sense of the farm bills which have just passed both houses.

"The presumption is that all this can be set up without coercion, and inside the framework of political democracy. And for that we have also got a new slogan: 'Majority rule,' 'majority mandate.' We have also got a public relations technique for constantly mobilizing that majority or pretending that it exists. . . .

"American liberalism is not dead. And it is challenged and it will continue to challenge the administration's attempt to follow up its failure to deal with its own depression, by trying to foist on the American people a program of 'democratic' Fascism."

There may be a real difference, however, between form and substance. All Fascist countries also have policemen, firemen, and railway employees. Not all countries with such employees are Fascistic. If any conscious planning at all is to be used in industry, there must be some form of industrial organization to prepare the plans and put them into action. The structure of Industrial Expansion may

therefore resemble the structure of economic planning in the Fascist countries. It may also, for that matter, resemble the structure of industrial planning in the socialist country, Russia. But the differences between Fascism, socialism, and capitalism lie not so much in organizational structure as in content and procedure. Will the content and procedure of Industrial Expansion be Fascistic?

First, as to administrative organization. The units for the planning and organization of industry will be constituted on a fully democratic basis. These include the industry authorities, the interindustry authorities, and the central industrial expansion board and administration. The board of each industry authority will be composed of representatives of businessmen, selected by the business management of the concerns in the industry; representatives of labor, designated by the industry's labor unions; representatives of consumers, selected by organizations of industries or individuals purchasing the products of that industry; and representatives of government, appointed by the central industrial administration. Business, labor, and consumer representatives will be selected democratically by the group they represent.

In Fascist countries, on the contrary, the central dictatorial government working closely with large business interests, controls all. The labor representatives on the Italian "corporations" are not selected by labor unions. The latter have practically ceased to exist as independent institutions. Instead, the labor spokesmen are designated by the government. Even the secretaries of the local organizations of workers are government selected and appointed. The unions have no powers of democratic self-government even in their own local affairs. Similarly, in Germany, labor unions have been completely suppressed. Workers no

longer have any right to speak or even to think for themselves. In Hitler's own words:

"First we had to halt the ever shifting wages and price movements, then we had to reconstruct the whole fabric of the State by removing all employer and employe organizations. The essential factors were maintenance of internal quiet and the time element."<sup>1</sup>

"The National Socialist State leadership is so sovereign, so above all economic ties, that in its eyes the designation 'employe' and 'employer' are immaterial concepts. Before the greater interests of the nation there are neither employer nor employe, but only labor delegates of the entire people."<sup>2</sup>

Instead of representing workers, the "Labor Front" in Fascist countries has apparently become merely an organization for policing workers.

Next, as to procedure.

The method by which Industrial Expansion will work is definitely democratic. It will not proceed by the promulgation of plans from the national capital, to be slavishly adopted and carried out by the industries affected. That is the way dictatorships work. On the contrary, the national plans for expansion will have their origins and beginnings in programs worked out by each business unit and then each industry authority, for each of the major industries for which definite expansion programs are being developed. The central administration may announce the tentative

<sup>1</sup> See "The Position of the German Government" by Reichsfuehrer Adolf Hitler before the Reichstag, in Berlin, May 21, 1935, in *Vital Speeches*, Vol. 1, No. 18, June 3, 1935, p. 577.

<sup>2</sup> See Speech of Chancellor Hitler at Nuremberg, September 9, 1936, International Conciliation, Carnegie Endowment for International Peace, November, 1936, p. 552.

goal, such as an increase in national income from 65 to 80 billion dollars for the year ahead. The detailed estimates and plans as to how to reach that goal will be worked out by labor and management in the industry itself, and its duly selected representatives on its industry authority. The industry itself will have the responsibility for working out how much expansion in demand the projected rise in national income will produce for the products of the industry. It will determine how the increases will be allotted among the concerns in the industry.

The central administration will be concerned primarily with making sure that the programs of the several industries fit together properly and provide such increases in the buying power of workers and in the expenditures for investment as will insure markets for the programmed production. The process of building national programs from the bottom up has already been proved to be a practical democratic procedure. In the agricultural program, first under the Agricultural Adjustment Act and then later under the Soil Conservation and Domestic Allotment Act, county associations of farmers have been increasingly relied upon as the basic unit both for administration and program-making. The formulation of the 1938 program, for example, started in the spring of 1937. Meetings of each county association were held to develop suggestions for the new program. State-wide and then regional meetings of representatives from these farmers' associations followed in early summer. Then in the late summer and early fall, these programs "from the field" were brought together in Washington for formulation into a tentative national program. This proposed national program, in turn, was subjected to the criticism of farmer representatives in regional and state meetings in the fall. Not until after these farmer reactions



had been thoroughly canvassed and taken account of was the final national program formulated and announced. In the new farm act of 1938, this democratic control was further strengthened by provision for referenda of producers before marketing controls could be imposed. The farmers affected regard this procedure as both democratic and acceptable. This is confirmed not only by overwhelming endorsement in the successive referenda conducted by the A.A.A. but also by the large majorities obtained in polls taken by an impartial agency, the Gallup Surveys of Current Opinion. Thus the Gallup poll of December 19, 1937, showed:

"A majority of farmers in all sections approve of the Federal Government's present soil conservation program. Sentiment differs in various sections, but the vote of approval is everywhere greater than 6 to 4.

"Farmers indicated they would favor regulations if the operations were put in the hands of farmers themselves. From 48 to 81% of the farmers, depending on their location, agreed that if two-thirds of the farmers producing any one crop agreed to have a marketing quota, that the other one-third should be compelled to abide by the decision of the majority."

The planning structure proposed for Industrial Expansion follows in general the structure of democratic program-making and program-administration that has been developed in the agricultural experience. Only such modifications have been suggested as seem necessary to take account of the differences between agriculture and industry in business organization and in problems to be solved.

In Fascistic countries there is no such opportunity for discussion or participation in policy making. The people

must do as they are told, without daring to ask why or wherefore.

Only in one exceptional case does Industrial Expansion require the use of central authority instead of cooperative action. That is in the unlikely exception that some industry of major importance refuses to cooperate in the preparation and initiation of programs of expansion. In that case the central administration would be authorized to itself prepare the missing program. This would be done with the help of technicians from the industry drafted into the national service. Then this government-prepared program would be imposed upon the recalcitrant industry by the use of the tax or other sanctions the central administration was empowered to use.

Some will argue that this power to force cooperation is itself dictatorial. They will argue that defiant and uncooperative minorities have a right to function as they choose, despite the majority decision as to what is in the national welfare. If that be so, then what is democracy? History has proved time and time again that any group that attempts to move by unanimous decision soon becomes moribund. Our own history is filled with case after case of the imposition of decisions of the majority over the resistance of the minority. The abolition of slavery and the abolition of prohibition are illustrations of the same point. The I.C.C. was established despite the resistance and the lobbying of the railroads. The Packers and Stockyards regulation was made effective over the vehement protests and court attacks of the packers. The Commodity Exchange Administration was not "acceptable" to the wheat pits, nor the Securities and Exchange Commission to Wall Street, but we have them and the country has survived them. If the Aluminum Company of America, the Republic Steel

Corporation, or even the great automobile concerns, should be so narrow-visioned and selfish as to refuse to participate voluntarily in national programs of Industrial Expansion authorized by the voters of the country through their duly elected representatives, would it be democratic to permit the national will to be thwarted by such selfish and self-interested minority interests?

Finally, it is significant that the ends and aims of Industrial Expansion are vastly different from the ends and aims of Fascism. In Fascistic countries, men exist but for the State and for the ruling classes which it represents. All life and all human activity are but means to making the State and those classes, and the Dictator who is their living embodiment, greater and more powerful. The standard of living of the workers may be reduced. Hours may be increased and real wages may fall. Costs of living may soar without limits. The hours of leisure that remain may be occupied in drilling and countermarching. Under Fascism, all that requires no apology. The only glory and satisfaction the worker is expected to receive is in increasing the might, the dominions, and the power of the State. His own welfare is not expected to be regarded. This has been clearly stated by Mussolini.<sup>1</sup>

“The key-stone of the Fascist doctrine is its conception of the State, of its essence, its functions, and its aims. For Fascism the State is absolute, individuals and groups relative. Individuals and groups are admissible in so far as they come within the State . . . The Fascist State is not a night-watchman, solicitous only of the personal safety of the citizens; nor is it organized exclusively for the purpose of guarantying a certain degree of material prosperity and

<sup>1</sup> Benito Mussolini, “Fascism: Doctrine and Institutions,” Ardita, Rome, 1935, pp. 27, 29, 40.

relatively peaceful conditions of life, a board of directors would do as much. . . . The State, as conceived and realized by Fascism, is a spiritual and ethical entity for securing the political, juridical, and economic organization of the nation, an organization which in its origin and growth is a manifestation of the spirit. . . . The State is not only the present, it is also the past and above all the future. Transcending the individual's brief spell of life, the State stands for the immanent conscience of the nation. . . . "Fascism desires the State to be strong and organic, based on broad foundations of popular support. The Fascist State lays claim to rule in the economic field no less than in others; it makes its action felt throughout the length and breadth of the country by means of its corporative, social, and educational institutions, and all the political, economic, and spiritual forces of the nation, organized in their respective associations, circulate within the State. . . .

"We are, in other words, a State which controls all forces acting in nature. We control political forces, we control moral forces, we control economic forces, therefore we are a full-blown Corporative State. . . . We stand for a new principle in the world, we stand for sheer, categorical, definitive antithesis to the world of democracy, plutocracy, free-masonry, to the world which still abides by the fundamental principles laid down in 1789."

Glory in sheer power, hope of foreign conquest, and an exaggerated nationalism are constantly dinned into the ears of Fascist subjects. This appeal to non-economic objectives obscures the economic shortcomings of Fascism. Both in Italy and in Germany, the Fascist state has failed to increase the welfare of workers. Except temporarily during the Ethiopian campaign, Italian unemployment has continued high. The number of persons receiving unemploy-

ment payments was 931,414 in 1932, and in 1936 was still 858,419. Meanwhile Italian costs of living have risen faster than wages, so that real standards of living for workers have not increased, and in agriculture, are definitely lower.<sup>1</sup> The statistics for Germany show a similar situation,<sup>2</sup> made even worse by the low quality of many of the substitute products. Under Fascism, workers have seen their civil liberties destroyed, without even getting better living conditions in return.<sup>3</sup>

Businessmen have not fared much better than have workers. Both Italy and Germany have increased taxes greatly. In Italy, direct levies have been made on business capital. In Germany, taxation and various forms of forced contribution now take about 45 per cent of the national income. Public debt in both countries has increased faster than in the United States.<sup>4</sup> Fascism has not solved the problem of getting prosperity without an unbalanced budget. Businessmen have lost the control of the use of their resources, and have little to show in return.

Industrial Expansion, on the contrary, has for its one and primary objective raising the standard of living and increasing the welfare, the comfort, and the dignity of the

<sup>1</sup> William G. Welk, "Fascist Economic Policy," Harvard University Press, Cambridge, Massachusetts, 1938, pp. 103, 233-242.

<sup>2</sup> In Germany, persons on forced labor at little or no wages, men at work on government projects similar to our W.P.A., minorities ousted from occupation, and persons in concentration camps, are not counted among the unemployed. If German unemployment statistics were compiled on the same basis as ours are, it would be seen that their unemployment is still heavy.

<sup>3</sup> Robert A. Brady, "The Spirit and Structure of German Fascism," The Viking Press, New York, 1937, pp. 120-182.

<sup>4</sup> "Fascist Economic Policy," pp. 224-5, 229; *Lloyd's Bank Limited Monthly Review*, July, 1937, pp. 385-86; "Foreign Commerce Year-book," U. S. Department of Commerce, 1935, p. 62, Henry A. Wallace, "Paths to Plenty," National Home Library Foundation, Washington, D. C., 1938, p. 145.

individual American. All of its activities and programs are but means to this end. The basic law under which Industrial Expansion would function would lay down, as a prerequisite, that no program could be approved unless it provided for an increase in industrial production as a whole, an increase in employment, and an increase in workers' pay rolls, without increasing the general level of prices or the cost of living. Its objectives are the abolition of unemployment, the provision of opportunity to work to all who seek work, the increase of wages, especially of the lowest wages, the retraining of displaced workers, the provision of adequate security against unemployment, sickness, and old age. Objectives such as these have nothing in common with the subordination of man to the State. On the contrary, for the first time they would make the democratic State effectively concerned with the welfare of man.

No, it is not along the line of Industrial Expansion that the threat of Fascism lies. On the contrary, it is only if this country fails to take action to solve the industrial problem that Fascism might appear. Historically, Fascism has appeared when countries operating under at least the forms of democracy failed to solve their economic problems. The failure of postwar Italy to solve her problems of industrial organization, low wages, and chronic unemployment paved the way for Mussolini. The postwar German government attempted to meet their economic problems by the paths of rigorous deflation, with grinding poverty, no avenue of opportunity for youth, and heavy unemployment among the mature. That gave Hitler recruits for the private army which helped him rise to power. It also created a discouraged, hopeless people willing to listen to his fantastic schemes and promises.

Democracy might blunder helplessly along, unable or

unwilling to take positive action to deal with its economic problems, letting unemployment increase, production decline, and starvation mount, while it looks hopefully for the "turn just around the corner." It is such an experience that leads to disgust with democratic institutions and willingness to try other more drastic methods. In 1932 the American people renounced the do-nothing policies of the Hoover Administration. By an overwhelming vote in 1936 they expressed their approval of the vigorous action policies of its successor. Adoption of the Industrial Expansion proposal would mean further vigorous, positive, and dramatic action to increase production and to end unemployment. Lack of such action may again involve us in the eternal budget dilemma. Shall we shut our eyes to starvation and balance the budget, or shall we provide effective relief and shut our eyes to the budget? Neither alternative bodes well for the future of the country. Neither one need be chosen if instead we choose the other path, a conscious planned expansion in production and consumption.

No, it is not democratic and powerful action to increase production that might produce Fascism. Rather, it is the spectacle of a democracy unable or unwilling to tackle its fundamental economic problems that creates the setting where a dictator might emerge. Why should we tolerate large-scale and continuing unemployment? Why should we leave our youth without opportunity? Why should one-quarter of our citizens exist on the edge of destitution? After six years of indirect attacks, America has not yet solved these vital questions. Would a conscious and direct attack upon them, using planning where planning is needful, make it more open to Fascist attack? Blundering inaction might set the stage for Fascism. Positive economic action will save democracy.

## XXXV

*Is planning for industry the same as socialism?*

In 1928, Russia began to dramatize its socialistic planning in the shape of the first of a series of "5-year plans." Since then the American public has identified the word "planning" with socialism. Even the numeral "5" has acquired a distinctly reddish hue. Now Americans cannot make "programs" for the future (we must not call them plans!) in terms of 5-year units. We must use some other time-unit that has not been appropriated by the Soviets.

The idea of planning is no monopoly of socialistic countries. No building is ever constructed save according to a plan. The plan may be formalized in blueprints. It may exist only in the builder's mind. Yet it is the plan that makes the assembly of bricks and mortar and wood and steel into a building possible at all.

A series of unrelated industrial plants, of laborers, and of piles of resources, is not a going industrial system. Careful detailed planning is necessary to make an industrial system function. The operation of our industrial system is characterized by fits and starts, by upsurges and depressions, by a continuing failure to produce to capacity. These are evidences of the fact that its operations are not planned. Our business concerns are not integrated into an effective economic system.

In every large factory careful forethought and planning is necessary to make the great assembly lines function smoothly and efficiently. Conscious planning of industrial layout and assembly is a distinctively American contribu-



tion to modern life. It is so completely accepted as a component of modern industrialism that it is no longer even called "The Taylor System."<sup>1</sup> The Industrial Expansion proposal is merely a method for applying more broadly those same principles of forethought and planning that are now almost universally applied within the plant and within the industrial concern. Industrial Expansion would apply these principles to planning the relations between industries, and between production and consumption.

We increase our productivity by planning and scheduling in advance the interrelated internal activities, the manifold operations, the thousands of men, the complicated machines and processes that make up the Ford Motor Company. Why should we not plan the external relations of that great productive unit to the rest of our productive society? No matter how careful the internal planning of each concern, the plans may all go to smash if the rest of industry does not operate in such a way as to make them feasible. The automobile industry learned this to its sorrow in the last quarter of 1937. Sales fell far below what the companies had counted on. They had to cut down their operations sharply. Effective external programs for coordinated expansion, such as proposed under Industrial Expansion, would prevent such collapses. It would insure that markets would be there. It would make the internal planning of each industry more workable, more dependable, and more effective.

There is need for interindustry planning in a democracy as well as in a socialistic state. Would the introduction of such industry-wide planning inevitably drive America toward socialism?

<sup>1</sup> Efficiency engineering was originally called The Taylor System, after Frederick W. Taylor, who first popularized it.

The essential element of socialism is the public ownership and operation of the "means of production." Under full socialism not only the post offices and the schools, but the railroads and the banks, the factories and the farms, the stores and the warehouses, would all be both publicly-owned and publicly-operated. Individuals would not be permitted to own property of any kind, except their personal possessions, such as clothing, books, and house furnishings. There might be differences in how rigidly the principle was followed. At times Russian peasants were permitted to own their own cows, their own chickens, and sometimes even their own horse. The developments in the Soviet Union, however, have steadily been toward bringing an ever-larger proportion of all productive equipment under the direct ownership and administration of the state.<sup>1</sup> Economic plans under socialism, therefore, must cover not only the key basic industries, but all the minor and incidental industries, down to hair-pins and shoe-strings.

Along with the private ownership of property, profits from the use of property would disappear under socialism. Every worker would become a paid employe, receiving all his income from the wage paid him by the government-owned industry which employed him. Socialists claim that this would not make life for the individual worker or consumer much different from what it is today. The job-seeker finds it little easier to get a job with General Electric or with Standard Oil than with the post office or the fire department. The worker does not find wages higher or promotion easier with the great corporation than with the public institution. Socialists claim that in actual practice, for most people, work and life under socialism would be

<sup>1</sup> Calvin Bryce Hoover, "Economic Life of Soviet Russia," Macmillan Company, New York City, 1931.

very little different from work and life under large corporations.

But all this is beside the point. We are not discussing the pros and cons of socialism, but whether Industrial Expansion *is* socialism. Is guiding industry according to concerted pre-arranged programs the same thing as the public ownership and operation of the industries themselves?

Here again we may turn to the farms for an illustration. Ever since 1933 farm production in this country has been, in greater or less degree, directed according to national programs. They covered cotton in 1933; cotton, wheat, hogs, and rice in 1934; and even a larger range of commodities subsequently. Production, acreage, shipment, or marketings of these commodities have been influenced by the production programs or the marketing agreements of the A.A.A. Has production planning in agriculture resulted in socialism on the farms? Has it resulted in the purchase, seizure, or operation of the farm land by the government?

The answer is obvious. The farm land of the country is as firmly in private ownership today as it ever was. In fact, it is even more firmly in private ownership than formerly. Previous to the New Deal, farm land *was* being seized by local governments at an increasing and alarming rate. That was happening through the purely capitalistic device known as delinquent taxes and tax sales. In five Southeastern States 17,718,000 acres of land were eligible for reversion for the nonpayment of taxes in 1933. In Michigan and Minnesota 9,052,000 acres had reverted or were eligible for reversion in 1933. There are no reliable figures for the country as a whole on reversion to states and counties. Rough estimates, however, indicate that in 1932 taxes were delinquent on about half of all the farm land of the coun-

try and that the delinquencies amounted to over \$150,000,-000 for 1932 taxes alone.<sup>1</sup>

Hard-pressed farmers were aided by the refinancing operations of the Farm Credit Administration, the rehabilitation loans of the Resettlement Administration, and the increased income from the A.A.A. and the monetary and fiscal policies. With this aid, the loss of farm ownership by foreclosure or tax sale decreased greatly. Between 1933 and 1936, the number of farms sold at forced sale dropped from 54.1 per thousand farmers to 26.2 per thousand. Instead of planned production replacing private ownership of land, it has made private ownership more secure.

Under the A.A.A. farmers adjusted their acreages, increased soil conserving crops, and directed their livestock production in general conformity with nationally and regionally planned programs. At the same time they continued to carry individually the full personal responsibility for efficient and effective operation of their farms. If any farmer failed to plow or plant at the right time, failed or was unable to use improved seed, or fed his cows improperly balanced rations, he alone suffered the consequences in reduced output and income. His operations were adjusted in accordance with central plans, but that did not relieve him of full responsibility for the processes of production. Within his farm he continued to be lord of all he surveyed. He continued to bear the responsibilities, the rewards, and the punishments for how good a job he did of the production side of farming.

<sup>1</sup> These estimates by the author are based on C.W.A. surveys covering 513 of the 2,008 townships in New England, and 649 of the 3,004 counties in the rest of the country. See Report in *Law and Contemporary Problems*, Duke University, June, 1936, page 347.

The operation of farms or of industries in accordance with agreed programs of production planning thus differs sharply from socialistic production. The individual owner continues to carry the full responsibility for production, with all the duties and privileges that go with it. In this respect Industrial Expansion is not only greatly different from socialism, but it offers the promise of a far more efficient and productive industry than might prevail under socialism. The Russian experience has shown that when all resources are placed under public ownership the drive of private initiative and private profit may be lessened. The interest of the farmer or worker may slacken. He may apply himself less vigorously and conscientiously. Total production may be far less than it would be with the same facilities under private management. Close attention is especially needed in farming. In the words of the old proverb, "The eye of the master fattens the cattle." It is significant that it is in agriculture that the Soviets have met their greatest difficulties.<sup>1</sup>

The planning methods of Industrial Expansion are thus *not* socialism. Instead, they offer an alternative technique for industrial organization that may prove more efficient and productive than either socialism or planless capitalism. Industrial Expansion continues to rely on the drive of individual incentive and the profit motive to insure the maximum of efficiency in production. It places that incentive at the point where it is most needed, in the technical process of production and operation. At the same time it uses conscious planning to bring order out of chaos in the relations between concerns, and between producers and consumer. It uses planning at the very point where unrestricted opera-

<sup>1</sup> See Lazar Volin, "Agrarian Collectivism in the Soviet Union," *Journal of Political Economy*, Vol. XLV, Nos. 5 and 6, Oct. and Dec., 1937.

tion of the profit motive has brought instability and disorder.

Rather than carrying us into socialism, then, the Industrial Expansion plan retains the sturdiest elements of capitalism. It uses the drive of private profit as a spur to efficient production. It blends that drive with industry planning to produce economic order instead of the existing economic confusion.

Something like Industrial Expansion must be put into action to make jobs for all our people. If that is not done, we shall not stand still. Today millions of good people have no jobs. They haven't proper food or decent clothes. They have no way to earn them. The longer these things continue, the greater will grow the pressures for more positive and more drastic action. T.V.A. and R.E.A. are only beginnings. The present plight of the railroads and the renewed agitation for public ownership are merely straws which show which way the wind is blowing. So too is the continued existence of widespread "bootleg mining" of coal in the anthracite fields. Industrial Expansion is a proposal to so plan capitalism as to retain its best features and make it workable. We should take such evolutionary steps while we may. If we do not, our capitalists may wake up some fine morning and find that we have drifted far while they were becalmed. While they temporize, we may be plunged into violent change. Industrial Expansion is a proposal to save all that is workable of the capitalistic system. It, or something like it, must be adopted before long. If we do not act in time, the inexorable march of events, the unsatisfied pressure of hungry and dispossessed millions, may force us into something far less pleasant to our conservative leaders of business and finance.

## XXXVI

*Will economic planning end capitalism?*

The term "capitalism" has become a slippery-smooth symbol of something all conservatives worship and something all radicals question. Before we can discuss how Industrial Expansion would affect it we must have a clear understanding of what the term means.

We think of the "capitalistic system" as describing roughly the kind of business and industrial organization we have been used to living in. Actually, though, we have not been living in a purely capitalistic system. Our roads, water and sewer systems, and postal service are socialistic. They are maintained and operated by the community and paid for, in gas taxes, service charges or stamps, by those who use them. Our schools, fire departments, police forces, courts and harbors are communistic. They are provided, in theory at least, equally to all who need them. They are paid for, from taxes, by those who are able to pay. We have many other communal activities on a smaller scale, such as lodges, churches, societies, clubs. Most families are largely communistic, with the income used for the benefit of all. Still other groups, such as cooperative organizations of producers or consumers, are engaged in selling, buying or producing. They thus use a limited amount of collective action. Only in a portion of our system does private capitalism operate.

But within the sphere where it is present, what does private capitalism consist of? What are its essential elements? Three characteristics may be enumerated:

1. The right of individuals to acquire private property, and use it freely for their own use and for the production of things to sell.
2. The right to contract freely with others, for the purchase or sale of materials, labor, goods or services.
3. The right to the profit arising from the use of property and labor.

Private capitalism, thus defined, is not something heaven-born or inevitably present as a result of unchangeable human nature. On the contrary, private property only has meaning in the presence of policemen and firemen to protect the owner in the use and enjoyment of it. Private contracts have value only when there are laws to recognize and regulate them, and courts to enforce their performance. Property can produce profit only when its use is facilitated by a network of social arrangements, including the forces to maintain law and order, the public highways and harbors, and peaceful and orderly workers and consumers. Private capitalism is a man-made system. It depends upon the smooth and continuous working of a whole series of arrangements provided by the people as a whole through the government. It was only with the development of orderly and responsible national governments, in the 18th and 19th centuries, that the system of private capitalism, as we know it, could begin to appear.

From the very beginning the people through government have imposed certain limitations on the freedoms of private capitalism. Property or men could not be used to challenge the sovereignty of the state. The enjoyment of profits was qualified by the obligation of paying taxes to maintain the government. These limitations recognized that private property, being dependent on the State for



protection, must support the State and pay its due proportion of the cost of that protection.

Toward the end of the eighteenth century a series of inventions and discoveries started the Industrial Revolution. This led to a great growth of population in the industrial countries and changed the great nations from largely agricultural communities to largely industrial. As factories and mines grew and flourished, many abuses of private capitalism appeared. To correct these abuses, the State was used by the citizens to gradually place more and more restrictions on the freedoms of private capitalism. The freedom to contract was not fair as between workers with only their individual labor to sell, and employers with thousands of workers to pick from. Workers gradually won the right to form unions and to bargain collectively, creating a more even contract between the employer and the whole group of employees. Agreements among employers to create monopolies or to regulate prices, on the other hand, were gradually recognized as against the public welfare. The right to make such contracts was denied to businessmen. While the right of contract was thus gradually narrowed, the private control over the use of property was constantly shrinking. The use that could be made of parcels of land was successively limited by building regulations, sanitary rules, and finally even zoning ordinances. Today when one buys a piece of land, city or country, one may find that the kind of structure that can be built, its height and width, its structural details, and even the portion of the lot it can occupy and the portion of the air over the lot it can displace, are all restricted by detailed laws and regulations. Only by thus limiting the uses made of individual properties can the people of a community as a whole insure the continued usefulness and value of all the property of the community.

The use of railroad and utility properties has similarly been restricted and limited in the public interest. So too, have exchanges, both commodity and security. Recently even the use of farm property has been limited, in the public interest, through the A.A.A. and Soil Conservation. In dust storms, the soil blown off one farm may destroy the value of farms to windward, in the same state or in other states. Under recent legislation, the private ownership of land in these areas has been further limited. Unless a farmer handles his land to prevent it from blowing or washing, the local Soil Conservation District may furrow or terrace it for him, and add the cost on to his tax bill.

The use one can make of labor is hedged round with public restrictions. Sanitary and other working conditions are subject to factory laws and inspectors. Workers must be protected by workmen's compensation insurance against accident. Through recent legislation the relations of the employer to labor unions, the provision of unemployment and retirement insurance, and even the hours and rates of pay, have been brought more and more under public control.

With the gradual evolution of tax systems the right to profit has been subjected to increasingly stringent public regulation. The Income Tax Amendment validated the proposition that all should contribute to the government in proportion to their ability. The progressive rates on higher personal incomes, the corporate income taxes, and the recent struggles over the taxes on capital gains and corporate surpluses, are all successive incidents in this gradual limitation of private profit by taxation.

Private capitalism is thus not a rigid fixed system, but a constantly changing, growing system. The essential freedoms upon which it depends, freedom of property, of con-

tract, and of profit, are none of them perpetual and unlimited freedoms. All depend upon the support of the social system for their existence. All have been gradually narrowed and limited as the industrial system became increasingly complex and intricate. Only so could the system of private capitalism be kept working for the welfare of all.

Industrial Expansion does not propose to destroy private capitalism. It only proposes that the nation use the powers of government to make further modifications which will enable private capitalism to continue to function in the modern world. Private property, in factories, mines and homes, will continue to exist under Industrial Expansion, just as private ownership of farms has continued under the A.A.A. Private contract will continue under Industrial Expansion. Concerns will continue to make their own arrangements for the purchase of needed materials and labor, and for the sale of the resulting product. There will be certain limitations, however, agreed upon in advance in the program for the industry. These will cover the minimum wages, maximum prices, and working conditions that may be provided for in the contracts of cooperating concerns. Concerns will continue to receive and enjoy the profit resulting from their operations. In general this profit will be both larger and better sustained than it has been in the past. Here too, though, the expansion programs will be so devised as to insure that enough of the gains go to labor and consumers to keep the system running. The relation of profit to pay rolls will thus be so guided as to prevent the recurrence of destructive speculative booms like those of 1928-29 and 1936-37.

Capitalism must constantly evolve and change if it is to keep alive in a constantly changing world. Private capitalism as it now exists seems unable to keep our men at work

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Certain of the data most frequently referred to are presented in the following tables.

TABLE I  
NATIONAL INCOME, AND INDEX NUMBERS OF PRODUCTION,  
EMPLOYMENT, PAY ROLLS AND PRICES

Year	National income		Index of Production 1923-25=100	Index of Employment 1923-25=100	Index of Payrolls 1923-25=100	Index of Wholesale Prices 1926=100	Index of Living Costs 1923-25=100
	Paid Out	Produced					
	<i>Million Dollars</i>						
1921	55,177	58,521	67	82.0	75.6	97.6	103.6
1922	58,041	59,857	85	90.7	81.2	96.7	97.2
1923	65,854	69,895	101	103.8	102.9	100.6	99.0
1924	66,763	70,557	95	96.4	96.0	98.1	99.2
1925	69,921	75,026	104	99.8	101.1	103.5	101.8
1926	72,823	79,658	108	101.7	104.2	100.0	102.6
1927	73,381	77,608	106	99.5	102.4	95.4	100.6
1928	75,823	80,559	111	99.7	103.5	96.7	99.5
1929	78,556	81,128	119	106.0	110.4	95.3	99.5

1930	73,290	68,302	96	92.4	89.4	86.4	97.0
1931	62,032	53,822	81	78.1	67.8	73.0	88.6
1932	49,024	40,014	64	66.3	46.7	64.8	79.8
1933	45,317	42,256	76	73.4	50.1	65.9	75.8
1934	51,510	50,052	79	85.7	64.5	74.9	78.6
1935	55,137	55,186	90	91.3	74.1	80.0	80.7
1936	62,586	63,466	105	97.8	85.6	80.8	81.6
1937	69,330	69,817	110	105.8	102.0	86.3	84.3
1938	65,021	63,993	86	86.8	87.5	78.6	83.0

Sources: National Income produced and paid out, 1929 to date—*Survey of Current Business*, June 1938, U. S. Dept. Commerce: Prior to 1929, National Bureau Economic Research figures—National Bureau Economic Research Bulletin No. 66, September 27, 1937, Table 4, Page 8.

Index of Production from *Federal Reserve Bulletin*, October, 1938, Page 910.

Index of Employment and Pay rolls—*Federal Reserve Bulletin*, October, 1938, Page 838.

Wholesale price index from "Wholesale Prices," Serial No. 700, U. S. Dept. of Labor, December, 1937, for 1926 to date 1921 to 1926 from Bulletin No. 543, "Wholesale Prices," U. S. Dept. of Labor, 1930.

Index of Living Costs from "Changes in Living Costs," U. S. Dept. of Labor, June 15, 1938.

The 1938 data for national income are from revised series, and are not precisely comparable with the estimates for preceding years. The differences between the original and the revised estimates, however, rarely exceed one billion dollars.

TABLE 2  
BASIC DATA ON INDIVIDUALS

<i>Year</i>	<i>1</i> <i>Total</i> <i>Population</i>	<i>2</i> <i>Population</i> <i>20-64</i>	<i>3</i> <i>Estimated</i> <i>number</i> <i>available</i> <i>for non-</i> <i>farm em-</i> <i>ployment</i>	<i>4</i> <i>Persons</i> <i>em-</i> <i>ployed in</i> <i>non-farm</i> <i>industries</i>	<i>5</i> <i><sup>1</sup>Estimated</i> <i>non-farm</i> <i>per-</i> <i>sons un-</i> <i>employed</i>
	<i>Thousands</i>	<i>Thousands</i>	<i>Millions</i>	<i>Millions</i>	<i>Millions</i>
1929	121,526		37.7	36.1	1.6
1930	123,091	68,490	38.3	33.9	4.4
1931	124,113		38.7	30.9	7.8
1932	124,974		39.0	27.7	11.3
1933	125,770		39.4	27.7	11.7
1934	126,626		39.9	30.3	9.7
1935	127,521	73,219	40.4	31.5	8.9
1936	128,429		41.0	33.2	7.8
1937	129,257		41.5	35.1	6.4
1938	130,215		41.8	32.7	9.1
1940	131,993	78,126			

<sup>1</sup> Column 3 minus Column 4.

*Sources* Total population estimates by the U. S. Bureau of the Census as of July 1 each year. The 1930 figure on population between age of 20 and 64 is the Census figure as of April 1, 1930. Estimates for 1935 and 1940 are of April 1 made by National Resources Committee, "Problems of a Changing Population," U. S. Govt. Printing Office, May, 1938, pp. 24-5.

Column 3 from unpublished estimates by the A.A.A., based on the ratio of occupied persons as reported by the 1930 Census to the number of persons of working age.

Column 4 from Bureau of Labor Statistics; "Total Non-agricultural Employment," January, 1938, data from revised series and is not exactly comparable with preceding years. The differences between the original and revised series do not exceed 0.3 million, however.

TABLE 3

## ESTIMATED EXPENDITURES FOR NEW DURABLE GOODS, IN CURRENT DOLLARS

(Millions of Dollars)

Year	Totals					Producers'										Consumers'			
	Public and Private	Private			Public construction	Railroads	Electric power	Telephones	Transit	Other utilities	Mining and manufact	Commercial bldgs	Agriculture	All other	Housing	Automobiles	Household goods	Construction by non-profit institutions	
		Total	Producers	Consumers															
1919	15,135	14,223	6,438	7,785	<sup>1</sup> 912	374	268	132	123	155	2,831	500	1,128	927	2,130	1,660	3,810	185	
1920	17,480	16,268	8,174	8,094	<sup>1</sup> 1,212	630	447	204	162	181	3,540	657	1,197	1,156	1,420	2,038	4,400	236	
1921	13,948	12,423	5,099	7,324	<sup>1</sup> 1,525	550	288	230	100	137	1,945	600	488	761	1,970	1,367	3,690	297	
1922	16,555	14,898	5,582	9,316	1,657	434	408	266	151	236	2,097	645	539	806	3,280	1,819	3,830	387	
1923	21,188	19,590	7,773	11,817	1,598	1,077	738	320	180	245	2,818	735	695	965	4,170	2,641	4,580	426	
1924	21,427	19,565	7,558	12,007	1,862	901	844	386	133	355	2,535	761	665	978	4,420	2,470	4,660	457	
1925	23,372	21,264	7,972	13,292	2,108	728	787	387	123	300	2,815	990	758	1,084	4,940	2,702	5,040	610	
1926	24,592	22,479	8,811	13,668	2,113	883	718	407	116	380	3,220	1,177	759	1,151	4,500	3,116	5,360	692	
1927	23,873	21,505	8,481	13,024	2,368	751	738	399	130	427	2,918	1,206	818	1,094	4,250	2,652	5,410	712	
1928	24,427	21,965	8,751	13,214	2,462	673	701	460	135	348	3,254	1,181	869	1,130	4,000	2,890	5,660	664	
1929	25,182	22,771	10,230	12,541	2,411	840	793	620	135	369	3,990	1,186	962	1,335	2,810	3,253	5,910	568	
1930	20,290	17,513	8,438	9,075	2,777	865	855	616	124	298	2,827	997	765	1,091	1,600	2,038	4,970	467	
1931	14,553	11,976	5,188	6,788	2,577	360	555	410	132	243	1,665	582	446	795	1,110	1,402	3,920	356	
1932	8,407	6,565	2,701	3,864	1,842	164	265	255	61	141	826	274	225	490	330	780	2,560	194	
1933	7,450	6,140	2,341	3,799	<sup>2</sup> 1,310	101	120	167	46	72	866	143	289	537	270	963	2,470	96	
1934	9,927	8,187	3,396	4,791	<sup>2</sup> 1,740	218	137	180	78	77	1,436	165	409	696	290	1,325	3,080	96	
1935	12,151	10,471	4,083	6,388	<sup>2</sup> 1,680	166	179	195	117	92	1,712	209	637	776	700	1,954	3,620	114	
1936	16,331	13,946	5,386	8,560	<sup>2</sup> 2,385	306	256	250	109	120	2,342	272	786	945	1,330	2,496	4,600	134	
1937	18,893	16,623	7,318	9,305	<sup>2</sup> 2,270	525	425	360	101	150	3,200	367	1,000	1,190	1,450	2,570	5,100	185	
<sup>3</sup> 1938	<sup>p</sup> 16,361	<sup>p</sup> 12,829	<sup>p</sup> 5,375	<sup>p</sup> 7,454	<sup>p</sup> 3,532	238	380	318	83	<sup>p</sup> 120	<sup>p</sup> 2,013	<sup>p</sup> 346	<sup>p</sup> 757	<sup>p</sup> 1,120	1,594	<sup>p</sup> 1,570	<sup>p</sup> 4,100	190	

<sup>1</sup> Excludes special war-time military construction.<sup>2</sup> Work-relief expenditures deflated to a "regular equivalent" basis.<sup>3</sup> 1938 data are from revised series and are not exactly comparable with preceding years. Revised figures back to 1919 are available from George Terborgh, Federal

Reserve Board, Washington, D. C.

Estimates compiled by George Terborgh

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